Fair Trade in the Fields: Outcomes for Peruvian Coffee Producers

by

Jean Marie Walsh

University of Colorado, Boulder, 1991

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ABSTRACT

Accessing specialty coffee markets is recognized as a way for some small-scale coffee farmers to earn higher prices, counteract unequal distributions of market power, and achieve a better quality of life. Members of CEPICAFE, a Peruvian coffee producer association that has gained access to Fair Trade and organic markets, do receive higher prices than they would by selling to local traders. However, many members consider exporting higher-quality coffee through their association (not Fair Trade) to be the reason they receive better prices than non-members. Furthermore, they often regard non-monetary benefits and collective goods (not necessarily higher prices) as the biggest advantages to membership in an association. This paper seeks to address the following questions: In what ways has CEPICAFE impacted the livelihoods of coffee farmers in Peru? What role have alternative markets played in enabling CEPICAFE to deliver benefits to members? What challenges does CEPICAFE face, and what are some strategies to confront these challenges?

Thesis Supervisor: Judith Tendler

Title: Professor of Political Economy

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ACRONYMS and MEASUREMENTS

CEPICAFE	*Central Piurana de Cafetaleros*
FLO	Fair Labeling Organizations International
FOB	Free on Board
Ha	Hectare
ICO	International Coffee Organization
JNC	*Junta Nacional del Cafe* (National Coffee Board of Peru)
NGO	Non Governmental Organization
PIDECAFE	*Programa Integral para el Desarrollo del Café*
QQ	Quintal
SCAA	Specialty Coffee Association of America

1 metric ton (ton) = 2,205 pounds

$1 US = 3.45 Nuevos Soles

1 hectare = 10,000 square meters = 2.47 acres

1 quintal = 100 pounds = 46 kilograms

1 container = 375 quintals = 17,250 kilograms

INTRODUCTION

When I went to Peru to talk to members of CEPICAFE, a coffee producer organization exporting to the Fair Trade market, I expected to hear glowing testimonials in praise of the favorable prices from Fair Trade compared to the meager ones received before Fair Trade came to the rescue. I was prepared to go on tours of the new schools and community health centers built with the "social premium" I had read about in the Fair Trade promotional materials. And I assumed most coffee farmers in the area would belong to CEPICAFE.

Instead, though members did report selling for higher prices, they attributed this mainly to changes in farm management, harvesting, and processing techniques that accompany membership in a producer group. In other words, they considered exporting *higher-quality* coffee directly through their associations as the reason they earned more than unorganized farmers. Equally puzzling, many named *technical assistance* and *access to credit* - not necessarily higher prices - as the biggest advantages of membership. In fact, they often didn't even know what Fair Trade was. On an institutional level, however, CEPICAFE's accomplishments were more straightforward: rapid and steady membership growth, booming sales to a variety of international markets, and sizeable investments in technology and infrastructure. Furthermore, the organization had attracted financing and recognition from everyone from municipal authorities to international institutions. In short, CEPICAFE seemed to be doing something right, although not for the same reasons, or in the same ways I had anticipated.

These observations caused me to question: *In what ways has CEPICAFE impacted the livelihoods of coffee farmers in Peru? What role have alternative markets played in enabling*

CEPICAFE to deliver benefits to members? What challenges do CEPICAFE and its members face, and what are some strategies to confront these challenges?

Power and Pitfalls of Producer Groups

Peasant cooperative organizations, through economies of scale and elimination of intermediaries, have at times been able to achieve higher prices and other benefits for members. Producer groups can also negotiate with governments, development projects and other external actors, thus giving voice to the marginalized and empowering the poor (Rice, 2004; Ronchi; 2003, Taylor, 2002; Tendler, 1983). Despite these seeming advantages to cooperation, farmer organizations tend to disappoint in practice. They often suffer from entrenched leadership, weak participation, managerial incompetence, and corruption (Hudson, 2003; Taylor, 2002; Tendler, 1983). State-sponsored cooperatives in particular are subject to these problems, and organizations created as part of donor-funded development projects don't usually last (Mendez, 2002; Varangis, et al, 2003).

Under certain conditions, though, producer organizations have survived and even flourished. Better-performing groups have received heavy doses of technical assistance to build managerial capacity. In many cases this support has come from "intermediary" NGOs with a high degree of accountability to their constituents (Carroll, 1992). Dedicated "external agents" or individuals with education and/or links to outside marketing channels have been instrumental in the formation and strengthening of cooperative organizations (Bianchi, 1999; Mendez, 2002). Developing mechanisms to control the tendency for individual members to "free-ride" has been another important factor in the success of these groups (Locke, 2001).

Escape to the Specialty Sector

In the coffee industry, organizations of small-scale farmers face new opportunities with the rise in popularity of specialty coffee. While demand has stagnated in most sectors of the industry, it has blossomed for higher-priced coffees that are distinguished by the process by which they were produced and traded. Growing at a rate of 30 percent per year, specialty coffee makes up 35 percent of the $5 billion US retail market.[1] Specialty coffee usually consists of shade-grown Arabica beans (versus low-grade Robustas) that buyers source from smallholder producer cooperatives and family-owned estates, as opposed to large corporate plantations or brokers on the commodities market. "Sustainable" coffee forms the fastest-growing segment within the specialty sector, and includes organic, shade-grown/bird-friendly, and Fair Trade.[2]

The possibility of accessing these higher-priced niche markets is especially significant considering the current crisis facing the coffee industry. Due to global oversupply, market prices for green coffee beans have reached historic lows, falling from a high of $1.80 per pound in 1997 and bottoming out at 45 cents per pound in 2001.[3] The humanitarian impacts of the crisis have been widely documented in the popular media and by a number of researchers (Gresser and Tickell, 2002).

Fair Trade Certified Coffee

Perhaps the most well known of the sustainable labeling systems is Fair Trade. The Fair Trade model attempts to establish more equitable trading relationships between producers and consumers through direct buying from certified farmer organizations at prices that aim to cover costs of production. The Fair Trade model also encourages long-term trading relationships

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[1] Growth rates are from 1999 to 2001. Specialty Coffee Association of America, as cited in TransFair, 2004b.
[2] TransFair, 2004b.
[3] International Coffee Organization composite index. For historical data on coffee prices see ICO, 2004.

between importers and certified farmer organizations. The principal criteria for Fair Trade coffee are:[4]

- **Direct purchase** from small farmers organized into cooperative organizations.[5]
- **Guaranteed floor price** of $124 per quintal for South American washed Arabica beans, with an additional $15 per quintal for certified organic.[6]
- **Freedom of association for workers** and democratic decision-making processes.[7]
- **Pre-harvest credit** of up to 60 percent of contract value at commercial interest rates, when requested.
- **Environmental standards** that restrict the use of agrochemicals.[8]

The Fair Trade movement emerged in Europe after World War II to address structural trading inequalities between countries in the industrialized North and the developing South. The first "alternative trade organizations," or ATOs, began by importing handicrafts directly from artisans in the developing world at "fair" prices for sale in "Third World shops." One of the first US ATOs, Equal Exchange, was formed in 1986 with shipments of "solidarity" coffee from Nicaragua, a country that was under a US-imposed embargo.[9] In 1988 a Dutch organization, Max Havelaar, catapulted the concept of fair trade from small, mission-driven stores and out into the mainstream. The organization launched an initiative to officially certify products as Fair Trade using a label. That way, any firm - alternative or mainstream - that abided by certain

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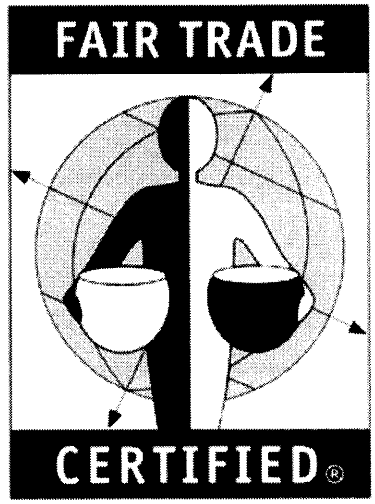
[4] TransFair 2004b. Fair Trade standards are set by "stakeholders from FLO's member organizations, producer organizations, traders and external experts" (FLO, 2004).
[5] Growers must not be "structurally dependent on wage labor."
[6] Slight regional differences exist in price: in Central America and the Caribbean the price for washed arabica is $126/qq for non-organic. For natural arabica the price is $120/qq for non-organic in all regions. Organic always commands $15/qq more. Prices are established based on costs of living and production.
[7] See Appendix A for FLO producer requirements regarding "democratic decision-making."
[8] Fair Trade certified coffee is not synonymous with certified organic, although 85%of Fair Trade certified coffee sold in the US is certified organic (TransFair 2004b).
[9] Ten Thousand Villages and SERRV began alternative trade activities in the late 1940's.

standards, was eligible to sell products marked Fair Trade. In 1997, several alternative trade organizations harmonized their standards under a non-profit umbrella group, Fairtrade Labeling Organizations International (FLO).[10]

FLO, representing members in 17 countries, defines the criteria for all Fair Trade certified products, including coffee, tea, bananas, sugar, cocoa, honey, and orange juice. Producer groups that conform to certain standards are eligible to join the International Fair Trade Register and become certified to sell on the Fair Trade market (See Appendix B for certification requirements)[11]. In consuming countries, a non-profit, third party certifier monitors the use of the Fair Trade label. To use the label, importers must buy from certified Fair Trade producer groups, use the label only on Fair Trade certified products, submit periodic reports of all sales and purchases of Fair Trade products, and pay a licensing fee of 5 - 10 cents per pound of Fair Trade certified coffee sold.[12] Until recently Fair Trade was unique in that importers, not producer groups, bore the costs of certification through payment of licensing fees. Citing inability to reach all associations wishing to join the Fair Trade registry due to financial constraints, FLO has



Fair Trade label

[10] These organizations included Max Havelaar in the Netherlands and Belgium; Cafédirect in Great Britain; and TransFair International in Germany.
[11] Fair Trade certification does not automatically guarantee sales at Fair Trade terms. In fact, many producer groups on the registry have been unable to gain access to a buyer due to limited consumer demand for Fair Trade products.
[12] In 2004 TransFair implemented a new licensing fee structure that gives discounts to importers with high sales volumes or high percentages of Fair Trade certified as percentage of sales. TransFair intends for this system to provide an incentive for roasters to increase their Fair Trade sales by rewarding growth with lower certification fees.

implemented a system effective 2004 wherein producer groups pay an initial fee to join plus an annual payment based on Fair Trade export volumes.[13]

Figure 1: Fair Trade Actors *

TYPE OF ORGANIZATION	NAME	ROLE
Consortium of Fair Trade groups in the US, Japan, Canada and Europe (non-profit)	Fair Labeling Organizations Int'l (FLO) (Based in Bonn, Germany)	Sets international Fair Trade criteria. Certifies producer groups and maintains Fair Trade registry.
Independent, third-party Fair Trade certifier (non-profit)	TransFair (USA, Japan, Canada) Max Havelaar (Europe) FairTrade Mark (UK)	Monitors and tracks compliance with Fair Trade requirements. Licenses firms to use Fair Trade label.
Coffee importer (for profit and non-profit)	Equal Exchange (US) Gepa (Germany) Twin Trading (UK)	"Hundred percenter" = purchases all coffee at Fair Trade terms.
Coffee importer (for profit)	Green Mountain Coffee Roasters, Procter & Gamble, Starbucks	Purchases a portion of coffee at Fair Trade terms.
Civil society group (non-profit)	Global Exchange, Oxfam, United Students for Fair Trade, Catholic Relief Services Lutheran World Relief	Builds Fair Trade movement by educating and mobilizing constituents to demand Fair Trade.

* *This is, of course, only a partial list*

On the demand side, NGO advocacy groups, student groups, and faith-based organizations have driven the growth of Fair Trade in the US (See Figure 1). By raising awareness about the coffee crisis and highlighting larger injustices in the global economy, these groups have spurred interest in alternative trading relationships and built consumer demand for Fair Trade certified products. Consumer pressure mobilized by activist campaigns has persuaded large US roasters including Starbucks and Procter & Gamble to offer a share of their product offerings at Fair Trade terms.[14] As a result, imports of Fair Trade certified coffee have grown an average of 75 percent per year

[13] The initial inspection fee ranges from $2,400 to 6,300 depending on number of members in the producer group. FLO charges a flat fee of $600 plus a volume-based fee of "less than a penny per pound" for renewal. (TransFair 2004).

[14] For information on Global Exchange's Fair Trade campaigns see James, 2004.

since the label was launched in the US in 1998, reaching retail sales of $208 million in 2003.[15] According to TransFair, farming communities have earned an additional $34 million above commodities market prices since 1999 by selling to the US Fair Trade market. Although Fair Trade has experienced impressive growth, sales still represent less than five percent of the $5 billion dollar US coffee industry.

Organic Coffee

Like the Fair Trade label, organic certification attempts to provide consumers with an assurance that certain standards were met in the coffee production process.[16] One of the main components of organic production is the absence of agrochemicals. However, organic certification also contains provisions for soil condition improvement, water use reduction, forest and biodiversity conservation, shade management, pest and waste management. Farmers are considered to be "in transition" for three full years prior to certification while they adopt new practices and rid their land of any traces of chemical inputs.

To monitor compliance with organic standards, an independent, third party certifier annually inspects farms, interviews producers, reviews organic fertilizers, and conducts soil samples. Most certification agencies are based in industrialized countries, but some have established branches in developing countries to carry out local inspections. Certification costs are higher for producers if inspectors must come from abroad because there is no in-country certifying branch. For this reason, costs vary substantially depending on the certifying organization, ranging between $150 and 500 dollars per day. Producer groups must use the agencies preferred by their

[15] TransFair, 2004b.

[16] Standards for organic products are devised by the International Federation of Organic Agriculture Movements (IFOAM) and its affiliates.

buyers instead of the most inexpensive ones, as consumers recognize different labels in different countries.[17]

As a way to lower costs to growers, the certifying organizations have established Internal Control Systems (ICS), which allow producer groups to monitor their members' compliance with the organic production program. In this way, certification firms do not have to visit all association members, but only a sampling of them - usually between 10 and 20 percent of farms in the organization. For producer groups to use this self-monitoring mechanism, they must demonstrate that they have: 1) someone responsible for the ICS program and a staff of internal inspectors; 2) guidelines determining production, gathering, and processing systems, as well as sanctions for non-compliance; 3) a training program covering organic production and certification requirements, including internal regulation; and 4) written documentation of farm practices. Because of these requirements, the process of obtaining organic certification is more costly and rigorous for producers than obtaining Fair Trade certification.

Sustainable Coffee

The coffee industry has responded to growing consumer demand for socially, environmentally and/or economically sustainable products like Fair Trade and organic by putting forth their own initiatives to capitalize on this demand. Various product labels that claim to guarantee some measure of "sustainability" have proliferated in recent years. CEPICAFE has acquired certification from one of these recent entrants, Utz Kapeh. Utz Kapeh is a Netherlands-based foundation formed by a European supermarket chain to certify that their coffee suppliers

[17] The main third party organic inspection and certification organizations in Peru are Organic Crop Improvement Association (OCIA), Naturland/IMO Control, and Biolatina. OCIA facilitates access to markets in North America and Japan, and Naturland/IMO Control is used when selling to European markets.

conform to a set of environmental and social standards, or Code of Conduct.[18] Unlike Fair Trade – and similar to organic – the Utz Kapeh label does not guarantee a price premium to growers. Instead, producer groups are expected to leverage the certification as a way to negotiate higher prices with buyers using market mechanisms.[19] These certifications may offer more opportunities for farmer organizations to sell, but they come with a price tag, as producer groups bear the costs of certification.

For producer groups, the advantage of selling to Fair Trade, organic, and sustainable markets is that they generally pay more than conventional buyers (See Figure 2). In contrast to the average price for conventional coffee of $54 per quintal in 2003, specialty coffee prices ranged from $61 to $139 per quintal in 2003. The established Fair Trade price of $124 per quintal is currently 130 percent higher than the price on the conventional commodities market.[20] Fair Trade coffee that is also organic yields the highest price of $139/qq, or 157% higher than conventional. Organic (non-Fair Trade) coffee sells for $69/qq, or 28% more than conventional, and "specialty" and "sustainable" coffees also offer modest premiums.

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[18] For details see Utz Kapeh, 2004.

[19] CEPICAFE is also pursuing Starbucks' CAFE standards certification, which is a set of criteria that if met, will facilitate selling to Starbucks. Rainforest Alliance is another sustainable certification initiative that CEPICAFE has not yet attempted to obtain. For more information see: http://www.rainforest-alliance.org/.

[20] Prices for arabica coffees are determined on the New York Coffee, Sugar and Cocoa Exchange (New York "C" market) and for robustas on the London International Financial Futures and Options Exchange. Coffee is traded under four categories: Colombian Milds, Other Milds (includes Peru's coffee), Brazilian Naturals, and Robustas.

Figure 2: Coffee Price Comparison 2003 *

Market Type	Avg. price/quintal	% above market price for conventional (non-organic) coffee ($54 avg. in 2003)
Fair Trade organic	$139	157%
Fair Trade non-organic	$124	130%
Organic	$69	28%
Specialty (gourmet/high quality)	$64	19%
Sustainable (Utz Kapeh)	$61	12%

Source: CEPICAFE, 2003. These are the average prices CEPICAFE received in 2003.

Review of Existing Research

Current research, while cautioning that niche markets are not the solution for all producers, points to accessing specialty coffee markets as a promising strategy for growers to increase their competitiveness, enhance product quality and diversify production (Ponte, 2002b: Varangis, et al, 2003). Although studies of Fair Trade producer associations exporting on the Fair Trade market are limited, existing research confirms that members receive higher prices through their organizations than they would from local traders. Equally important, research shows that Fair Trade relationships offer positive indirect benefits to producer groups in the form of managerial capacity-building and provision of market information (Murray, et al, 2003; Raynolds, 2002; Ronchi, 2002; Taylor, 2002). Some studies have documented spillover effects in the form of better local market prices and higher wages for day laborers in regions where Fair Trade cooperatives operate (Ronchi, 2002). And observers all note that one of the biggest limitations to Fair Trade is that most certified producer groups are only able to sell a portion of their harvest at Fair Trade terms due to insufficient demand (Murray, 2003; Nigh, 2002; Raynolds, 2002).

Critics of the Fair Trade model contend that paying a floor price promotes continued reliance on products with poor long-term prospects and "may actually make growers worse off" (LeClair 2002; Zehner, 2002).

Concerning organic certification, research suggests that pre-existing limited reliance on chemical inputs, access to technical assistance, and land tenureship are key factors in facilitating the transition to organic practices (Damiani, 2002; Mendez 2002). Organic production can be more time-consuming and labor intensive (and sometimes more costly) than conventional production, and doesn't always reward growers with prices high enough to make adhering to the increasing demands and costs of certification worthwhile (Damiani, 2002; Ponte; 2002b). The key to economic sustainability in organic, therefore, is to find a reliable minimum size market year after year. The rigorous internal monitoring procedures required by the organic certifiers means the process of getting certified organic can be more challenging and can have a more direct impact than Fair Trade certification on growers and their first-level organizations (Damiani, 2002; Taylor, 2002).

Methodology

I conducted the bulk of my fieldwork for this study during two visits to Peru; one for seven weeks in the summer of 2003, and one for three weeks in January 2004. My first visit was part of a summer internship funded by MIT's Program on Human Rights and Justice, for which I had proposed to investigate the impacts of Fair Trade on producers and their associations. I intended for my findings to be used by NGOs and other Fair Trade organizations to help promote Fair Trade. Thus, my research was grounded in an assumption that small-scale agricultural producers are not being justly rewarded for their contributions to international trade, and in my belief in the potential of Fair Trade as a promising solution to market inequalities and the crisis of low prices.

I carried out the second visit as a targeted approach to this study after having conducted further desk research into Fair Trade and organic markets.

Sample Selection

I selected interview respondents based primarily on "convenience," but made an effort to control for the following variables in order to get a mix of individuals from each category (many of which overlap): men and women / different geographic areas and associations / years as member of association / age of association / age of respondent / whether the respondent had held a leadership position or not / organic certified vs. conventional. I found little variance of responses between categories.[21]

I gained access to members through PIDECAFE (an NGO providing technical assistance to members of CEPICAFE) and through CEPICAFE (the coffee producer group). Farmers probably believed I was somehow affiliated with one of these organizations either because I arrived in the vehicle of a staff member, or simply because of my presence as a foreigner at one of their events. I was able to observe (and sometimes participate) in the following activities.

- a two-day training of about 20 CEPICAFE members entitled "Promoting my Business." This session served as a focus group, as the facilitator asked participants to provide answers to questions that were relevant to this study, including, "why did you join your association" and "what are the main benefits of membership?"

[21] I did notice, however, that those in leadership positions and those who had been members for a longer period of time generally had a better understanding of export markets. Older members remembered times when prices were much higher and often commented on the increased workload of organic production. Slight distinctions also arose between members of associations and members of the single cooperative organization, the *Cooperativa Jose Gabriel Condorcanqui*, which has (unlike the other associations) common property, a different management structure, and a much longer history. Members of this cooperative tended to associate themselves more with their primary-level association than with CEPICAFE.

- one day of internal organic inspection during which I visited half a dozen individual farms and observed the organic inspection process;
- an "a*copio*" day (gathering day) when members bring their coffee to the association to be inspected, bagged and weighed for transport to the processing facility;
- a "*liquidation*" day (when CEPICAFE distributes final payments to members) in two towns, where I observed interactions between members and management;
- a meeting in the town of Coyona that CEPICAFE had convened in order to prepare members for an upcoming buyer visit.
- I spent a day at the processing plant in the town of Chiclayo to observe how coffee is dried, sorted, and processed before export;
- I visited the port of Paita, where coffee containers are loaded and shipped to Europe and the US.

I also spent five days in the town of Coyona with a delegation from Equal Exchange (CEPICAFE's largest Fair Trade buyer), including Equal Exchange staff and several store owners and managers who purchase coffee from Equal Exchange. During the week we stayed in the homes of members, ate with families, and spent an afternoon harvesting coffee and observing how it was processed. At the end of our trip the cooperative prepared a presentation of traditional dances, poetry, and music by local schoolchildren and a farewell dinner and party. Members probably associated me with Equal Exchange.

Data Collection and Record-Keeping Procedures

I used two qualitative methodological techniques; the semi-structured interview and participant observation. As a participant/observer, I took advantage of spare time to speak casually with participants but did not conduct formal sit-down interviews. I took notes when doing so seemed appropriate, otherwise I jotted down observations at the end of the day. I supplemented my ethnographic research with quantitative data including sales and export records, credit documents, and membership lists. I also reviewed meeting minutes, training manuals, and newsletters.

I conducted 15 in-depth interviews lasting from 45 minutes to two hours with CEPICAFE management, staff and directors, PIDECAFE staff, Oxfam UK staff, an organic certifier, a representative from FLO, (the Fair Trade certifying organization) an official from the National Coffee Board of Peru (*Junta Nacional del Cafe*), and two US Fair Trade buyers. I conducted most of these interviews in person in Lima or Piura and did not tape-record them. I performed the last two in the US (one over the phone and one in person) and I tape-recorded and transcribed them. Respondents were usually informed that I was a student doing research on coffee production and Fair Trade, but no consent forms were signed.

I also administered a survey / questionnaire with a mix of closed and open-ended questions to CEPICAFE members. The quantitative section of the survey was useful in obtaining demographic information such as age and education level of respondent, land holdings, production yields, prices, and years with the association. I used the remainder of the survey as an interview guide, as respondents frequently took the liberty of recounting rich information for which the rigid survey structure didn't accommodate. These interviews / questionnaires took between 20 minutes and one hour. I did not tape-record them but took extensive notes on the survey sheets. I interviewed 42 producers from five associations in four districts. 32 were men; ten were women. Six had held leadership positions in their organization. 29 had obtained organic certification or were in transition. 12 had been members for more than six years; ten had joined in the past two years.

I was able to go to the 16th Annual Specialty Coffee Association of America conference in Atlanta, Georgia, from April 23 – 27, 2004, where I conversed with buyers, importers, retailers, certifying organizations, representatives from producer groups, and Fair Trade activists. I attended sessions on sustainable certification systems, coffee and sustainability, quality control, the coffee crisis, and the Fair Trade supply chain.

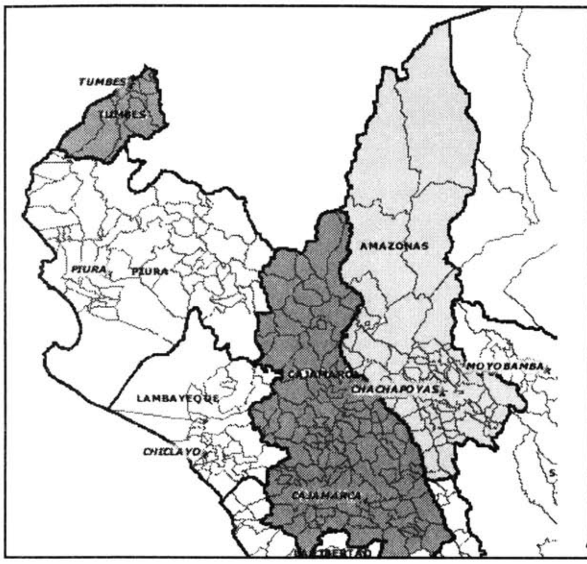
Possible limitations

The methodology for this study has a number of possible limitations. The respondents – from individual farmers up to association managers – may have felt compelled to reflect more positively on Fair Trade if they associated me with a Fair Trade group (and they often did). Members may have felt inhibited from criticizing CEPICAFE or PIDECAFE if they believed I was affiliated with one of these organizations (again, they often did). Conducting my interviews in Spanish, which is my second language, and relying on handwritten notes instead of transcribed interviews could potentially pose problems with information accuracy. Another significant challenge I faced was the difficulty of obtaining reliable quantitative data: information (amounts, dates, prices) often failed to match up between documents and even within the same document. A further weakness of this study is that, due to access and time limitations, I was unable to speak with non-members or local traders.

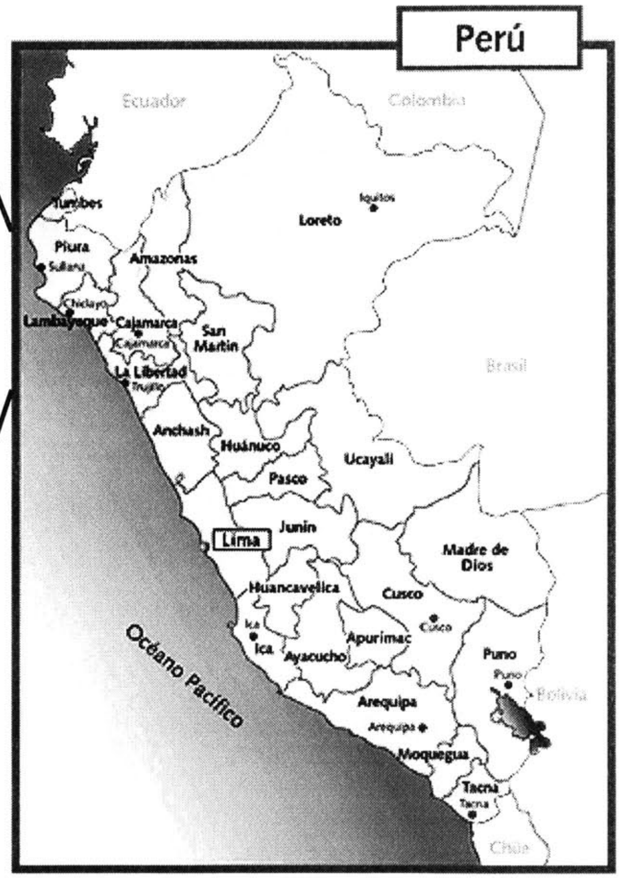
CHAPTER ONE: THE CASE OF CEPICAFE

"We renew our commitment to confront new challenges, with you and your associations, in order to achieve dignity, a healthy environment, a vibrant democracy, and a just society."

- Sergio Neyra Camizan, former CEPICAFE President[22]



Northern Peru



Peru and Specialty Coffee

With exports of 3.26 million quintals in 2003, Peru's coffee production dwarfs in comparison to that of its South American neighbors. It accounts for just two percent of world coffee production and only two percent of the country's total export earnings.[23] But thanks to Peru's comparative advantage in producing traditionally cultivated, shade grown, high quality Arabica beans, the country has rapidly become a big player

[22] CEPICAFE, 2001.

[23] Over 100,000 families are dedicated to coffee cultivation on more than 270,000 hectares of land in Peru. Coffee makes up 87 percent of total Peru's agricultural exports of $216 million. Exports from coffee totaled $188 million out of total exports (FOB) of $7.7 billion in 2002. Depressed market prices have halved the dollar value of exports since 1997, when Peru exported nearly $4 million of coffee (JNC, 2003).

in the market for specialty coffee. Peru is the second largest supplier of Fair Trade certified coffee after Mexico and one of the world's top producers of organic (See Appendix B).[24] Peruvian producer groups, because they have all gained direct access to specialty markets, have managed to secure significantly higher average prices than conventional exporting firms (see Appendix C).[25] An estimated 15 – 25 percent of Peru's smallholders belong to cooperative organizations.[26]

In Peru, the department of Piura is known more for its desert beaches than its coffee cultivation. With total annual yields of 91 thousand quintals, it ranks 9th out of 11 departments in coffee production, comprising less than three percent of Peru's total annual output of 2.5 million quintals.[27] Despite marginal production, Piuran farmers possess natural advantages in producing coffee for the specialty sector. First, they cultivate Arabica beans, which are deemed superior to the harsher-tasting Robusta beans used in instant and "canned" coffees.[28] Second, they grow the heirloom varieties Typica and Bourbon, which coffee enthusiasts consider to have excellent "cup quality," and are the source of much of the world's specialty coffee. Third, Piuran farmers cultivate coffee without using chemical fertilizers or pesticides. Producing "passive organically"

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[24] Eleven of 53 coffee producer groups in 17 countries currently exporting to the Fair Trade market are in Peru. Peru exported 55 thousand quintals of Fair Trade coffee in 2002 in comparison to Mexico's 86 thousand quintals in the same period (Murray, et al, 2003). Mexico and Brazil are the world's leading producers of organic coffee, exporting almost 20 percent of the 800,000-bag estimated world production of organic coffee (McCosh, 2003).

[25] In 2002, nine firms exported 90 percent of the value of Peru's coffee, while 50 other organizations, including 11 producer groups, exported the remaining 10 percent (JNC, 2004).

[26] Estimates from CEPICAFE, 2001and JNC, 2004).

[27] JNC, 2004.

[28] The biggest suppliers of robusta beans are Brazil and Vietnam. Robusta is a heartier plant that grows faster and produces higher yields than arabica, but requires heavy doses of chemical fertilizers. Robusta can withstand the sun and is able to grow at lower altitudes, which means it can be planted in mass quantities on level ground, allowing for mechanized harvesting on large plantations (Coffee Research Organization, 2004b).

facilitates the transition to organic certification. Fourth, they grow coffee in the shade of natural forest systems, at elevations that yield a higher quality bean and a better tasting beverage.[29]

CEPICAFE

One of Peru's top coffee producer organizations is the *Central Piurana de Cafetaleros* (CEPICAFE). CEPICAFE is a second-level cooperative organization of small-scale coffee farmers that incorporates over 2,100 members in 53 primary-level associations (See Figure 5). The organization operates in three provinces in the northwestern department of Piura: Ayabaca, Morropon, and Huancabamba.[30] 1,800 out of an estimated 5,600 – 7,000 coffee producers in the Department of Piura (25 to 33 percent) are members.[31]

CEPICAFE's 53 associations range in size from 13 members to 350. The average association has between 20 and 40 members, with two notable exceptions: The *Cooperativa Agraria Cafetalera*, an agrarian reform cooperative with 250 members; and CENFROCAFE, *Central Fronteriza de Cafetaleros*, another second-level organization with 350 members that was incorporated in 2003. CEPICAFE has grown by an average of six associations and nearly 300 members per year since exports began in earnest in 1997 (See Figure 3).[32] In 2002, 16 percent of members, or 265 out of 1645, were women.

[29] Strictly hard bean (SHB) is grown 1200 meters above sea level and higher. Hard bean (HB) is grown between 800 and 1200 meters above sea level.

[30] In 2003 the General Assembly voted to incorporate CENFROCAFE, a second-level association with 350 members in the provinces of Jaen and San Ignacio, in the Department of Cajamarca. One reason I was given for the decision to expand was that CENFROCAFE had been unable to access the Fair Trade market. The finding that networks of producer groups tend to assist each other in a form of solidarity is supported by Taylor, 2002.

[31] In this paper I focus on the Department of Piura, since associations in the Department of Cajamarca were only recently incorporated and data on them remains scarce.

[32] Incorporating new primary-level associations is one way CEPICAFE grows; the other is by expansion of existing associations. Primary associations tend to swell until they reach a saturation point as all or most farmers in the area become members. A few associations have experienced slightly declining membership, with producers splintering off to form associations closer to where they live or joining other groups because of personal conflicts or dissatisfaction with management. I didn't hear about any former members who had left an association and not joined another.

Figure 3: CEPICAFE Membership and Export Growth, 1995 to 2003

Year	Number of Associations (est.)	Number of members (est.)	Containers exported[33]
1995	13	393	0
1996	13	393	0
1997	18	616	1.5
1998	19	690	8
1999	23	958	20
2000	30	1262	32
2001	35	1402	38
2002	45	1650	45
2003	53	2200	53

Source: Staff interviews, CEPICAFE Newsletter, CEPICAFE 2001.

Like the average coffee farmer in Peru, three quarters of CEPICAFE members are smallholders who cultivate coffee on two hectares or less (See Figure 4). Most Peruvian coffee farmers don't possess actual titles to their land, but they are aware of the boundaries of their parcels.[34] These parcels are usually divided among several smaller dispersed parcels situated up to several kilometers away, and growers often have to walk an hour or more to reach them.

Figure 4: CEPICAFE Members and Area Planted with Coffee, 2001

Total Members	Less than or 1 ha.	Over 1 to 2 ha.	Over 2 to 3 ha.	More than 3 ha.
1043	384	400	163	96
100%	37%	38%	16%	9%

Source: CEPICAFE, 2001

[33] 1 container = 375qq = 17,250 kg.
[34] CEPICAFE, 2001.

The most important decision-making body within CEPICAFE is the General Assembly, which is comprised of one elected delegate from each primary association.[35] The General Assembly meets once per year to approve the operating plan and annual budget, vote on the incorporation of new associations, approve the management staff, and elect the Directors Council. Decisions in the General Assembly are made by majority vote.

The Directors Council consists of seven elected members: President, Vice President, and five Directors, each serving a three-year term.[36] The Directors Council meets bi-monthly with management to approve credit requests and review the state of the organization. A hired General Manager, Assistant Manager, and a small administrative staff perform the day-to-day functions of CEPICAFE. These positions are approved each year in the General Assembly.

Figure 5: CEPICAFE in a Nutshell

Year Founded	1995
Number of Members	2,100
Primary Associations	53
Coffee Varietal	Arabica (Typica, Bourbon)
Harvesting Period	May through September
Elevation	900 – 1400 meters above sea level
Production	15,430 quintals
2003 Export Value	$1.6 million
Organic Producers	certified organic: 950 in transition: 320 (1,270 total / 60 percent of members)
Price paid to Members	non-organic: $61 per quintal organic: $71 per quintal

Source: CEPICAFE 2003, personal correspondence with CEPICAFE staff.

[35] One exception is the secondary-level association, CENFROCAFE, which is permitted fifteen delegates due to its large size.
[36] Beginning in June 2004, one member of the council must be a woman.

Origins and Innovations

The CEPICAFE story began in 1991, when a few twenty-something Peruvian students studying agronomy the National University of Piura conducted a diagnostic study to evaluate the state of coffee cultivation in Piura. The young men carried out the study with a German volunteer named Rudolf Schwartz, who is credited with helping to later found CEPICAFE. Trekking through the countryside, sleeping under the stars, and drinking plenty of *cañazo* (a potent homebrewed alcohol) with farmers were a big part of conducting the study. One founder recalled the group's inexperience in the beginning:

> *"We didn't know anything about coffee. We used to joke that Rudolf wasn't an agronomist, he was a gardener!"*[37]

Although the founders initially looked at the coffee project more as an adventure than the beginning of a serious enterprise, their report revealed important characteristics about Piuran coffee farming that eventually led them to act. They found that growers faced depressed prices, the lowest yields in the country, and a hearty resistance to community organization.[38] To address these problems, the group decided to create an organization whose mission was to revive coffee cultivation in the department of Piura. Borrowing statutes from another NGO, they founded PIDECAFE, *Programa Integral para el Desarrollo del Café* (Integral Coffee Development Program).

Associations and Adversity

At first, PIDECAFE worked with a handful of pioneering community leaders who were interested in experimenting with new farming practices. As the program evolved, the founders decided to form formal producer organizations. This was no small feat considering the Peruvian

[37] Personal conversation with César Paz, July 2003.
[38] CEPICAFE, 2001.

historical context. In the late 1960's, agrarian reform legislation had converted agricultural haciendas to production cooperatives to be jointly owned and managed by the former workers. The reform measures were unaccompanied by the extension of credit and technology and, in terms of increasing productivity, largely failed.[39] In the early 1990's the Alberto Fujimori administration sealed the fate of most Peruvian coffee cooperatives by liquidating the Agrarian Bank and disbanding the state-run export agency. Coinciding with these national neo-liberal economic policies, an international agreement to raise and stabilize coffee prices through a quota system collapsed in 1989, causing global prices to plummet and effectively removing the channel through which these organizations exported their production. In the end, all but one of seven state-sponsored coffee cooperatives in the department of Piura dissolved, victims of mismanagement, cronyism and corruption.[40] Lands were subdivided and plots awarded to individual members.

"Nobody wanted to have anything to do with cooperatives," was how one founder summed up the prevailing attitude in the countryside when PIDECAFE began their work.[41] In this climate of suspicion, PIDECAFE decided to establish *associations* with a much less rigid legal structure and different rules regarding common property and financial assets. They called them APPCAFEs (Small Coffee Producer Associations). Using a more appropriate organizational structure was a smart move that turned out to facilitate CEPICAFE's rapid growth.

[39] Herbert-Copley, 2004
[40] The sole surviving organization in Piura, the Cooperativa Jose Gabriel Condorcanqui, in the town of Coyona would later become one of the first member groups of CEPICAFE. The manager of the Coyona cooperative showed me records from the 1980's, during the quota-setting period of the International Coffee Organization of hundreds of quintals registered under the names of prominent local families, who would buy coffee and resell at higher quota prices through the cooperative. This story supports Jarvis' finding that rent-seeking behavior on the part of local elites prevented higher prices from reaching producers during the International Coffee Agreement era. (Jarvis, 1996)
[41] Personal conversation with César Paz, July 2003. This sentiment is confirmed in Emmot, 2004.

Outsiders and Insiders

The combination of an "outsider" with market connections and money, and "insiders" with the interests of the community at heart, proved to be a winning combination for PIDECAFE / CEPICAFE.[42] Two of the founders, the Paz brothers (Santiago is General Manager and César is now an advisor), grew up in a rural agricultural district in Piura, sons of a farming family. The similarity of socio-economic status between leaders and members probably contributed to CEPICAFE's success as a grassroots organization. Yet, like many coffee producer groups involved in Fair Trade networks, CEPICAFE also benefited from the involvement of an external agent.[43] A volunteer (Rudolf Schwarz) with the German development organization Center for International Migration and Development (CIM), played a leading role by offering much-needed start-up capital and connections to foreign markets.[44] Schwartz brought PIDECAFE to the attention of German solidarity groups (community-based development organizations), who not only financed PIDECAFE's early activities, they helped establish contact with the Fair Trade importer, Gepa.[45] During my time in Piura I heard dozens of fond stories of "*el famoso Alemán*" (the famous German) and how he engendered the trust of farming communities. However, Schwartz' participation was not part of an official donor project: the founders were just close friends. Schwartz even paid for the group's initial transportation and food expenses with his personal credit card. [46]

[42] Bianchi (1999) also found that successful producer organizations often involve leaders with market connections, education, and capital.
[43] Other coffee producer groups exporting to the Fair Trade market were created under the influence of liberation theology or with the assistance of religious activists (Aranda, 2002; Mendez, 2002).
[44] Center for International Migration and Development. In German: Centrum für internationale Migration und Entwicklung.
[45] $400 per month donated by these solidarity groups paid the costs of organic certification for several years (CEPICAFE, 2001).
[46] Personal conversation with Sergio Neyra, January 2004.

Accidental Organic

From day one, involvement in the PIDECAFE (and later, CEPICAFE) program meant adopting sustainable agricultural practices. PIDECAFE's plan incorporated natural pest control methods, composting to improve soil conditions, and planting trees to actively manage shade. One of the main components of the program was farm renovation. To renovate farms, growers would start plant nurseries from which they would later select seedlings to replace older, low-producing plants. PIDECAFE also promoted the rustic, traditional coffee variety Typica, instead of "improved" varieties like Caturra and Catimor (a mix between Robusta and Arabica) that various international development projects had previously introduced. These more delicate varieties were not apt for the harsh conditions of Piura, which is characterized by its long periods of drought and few months of heavy rains. Nor were they appropriate for the producers, who lacked the resources to purchase the agrochemicals they demanded. Notably, the decision to promote sustainable agriculture was born of a desire to conform to local socioeconomic and climatic conditions, and not with the thought of higher prices in mind. As one founder recalled the move toward organic, *"We didn't really evaluate it very much. It was accidental."*[47]

What began almost unintentionally converted into an organizational strategy when the founders decided to pursue official organic certification in 1995. To drum up support for the organic program, they held contests between associations and gave recognition to producers with the best-managed plots. They tested out new techniques on demonstration parcels on the land of community leaders and disseminated information on organic methods through *pasantías*, or

[47] Personal interview with Santiago Paz, July 2003.

learning exchanges, between farmers.[48] Today, 950 producers are certified organic and 320 are in transition, representing 60 percent of CEPICAFE's members.

Market Access: 101

As described above, farmers originally came together to enable economies of scale in the delivery of technical assistance: The idea of marketing production didn't arise until later. One senior CEPICAFE member recalled this realization:

> *"I used to say, 'what are we doing with all this product if we don't have anywhere to sell it?' That's even worse!"*

The first attempt to achieve higher prices for growers was to inform them of global prices and trends so they could store and sell accordingly. PIDECAFE disseminated market information over the radio until they discovered that local intermediaries were using the data as well. Then they experimented with a system of code words.[49] They also tried renting trucks to transport coffee directly to domestic exporters in the coastal towns, but report having lost money because prices failed to cover their expenses. These early transactions were marred with problems: when market prices dropped after both parties had agreed upon a price, the exporters often failed to honor the original contract price and instead paid the lower rate.[50]

An opportunity to bypass intermediaries and export directly on the world market arose in 1994 when Gepa, a German alternative trade organization, agreed to purchase 125 quintals (1/2 a shipping container) from the fledgling producer group. PIDECAFE stepped up to the challenge and managed to fulfill this initial contract, but Gepa was unsatisfied with the product's poor and inconsistent quality. Most importantly, buyer and seller had failed to stipulate the processing

[48] CEPICAFE, 2001.
[49] Personal interview with Santiago Paz, January 2004.
[50] CEPICAFE, 2001.

method to be used. PIDECAFE's coffee was processed using the natural, or dry-processing method that was widespread in Piura, instead of the washed, or wet-processing method demanded by Northern European markets. To sell this inferior coffee, Gepa blended it with milder Guatemalan beans and sold it as "solidarity coffee" in alternative trade stores.[51]

In spite of these setbacks, PIDECAFE's exporting experience gave birth to a number of noteworthy innovations: One, the potential to sell at favorable prices to an international buyer provided an incentive for producers to switch to a superior processing method that also yielded higher prices on the world market. Because wet processed coffee tends to possess the properties of aroma, body and acidity that are valued in the specialty market, washed Arabicas can retrieve up to 30 percent more than Robustas or natural Arabicas.[52]

Conversion to wet processing was a significant accomplishment, as washed coffee requires additional equipment, access to water, and is much more labor intensive in every step of the process (See Figure 6).[53] CEPICAFE spent the next few years converting members to the new method and by 1998, nearly 100 percent of the coffee gathered was wet processed.[54]

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[51] CEPICAFE, 2001.
[52] Dicum and Luttinger, 1999.
[53] Another factor that makes switching to wet-processed coffee more difficult is that Peruvian coffee drinkers generally prefer natural coffee, and think washed coffee is "*loose and watery*" (Personal interview with Santiago Paz, July 2003).
[54] Converting to wet processing was complicated by a rise in price for natural coffee due to a Brazilian frost in 1995. But the switch was assisted by several subsequent years of El Nino rains (CEPICAFE, 2001).

Figure 6: Wet and Dry Coffee Processing: A Comparison

Steps	Washed/Wet processing	Natural/Dry processing
Harvesting	Selective picking of only ripe cherries and multiple harvesting. = More labor intensive	Strip harvesting of all coffee cherries, ripe or not.
Depulping	Buying or borrowing a depulping machine ($100) = Depulping after the first day affects flavor profile.	Using less-expensive machinery to mill.
Fermentation	Mucilage loosened in a fermentation tank/receptacle = Over-fermentation affects flavor profile	N/A
Washing	Beans washed. Requires access to water.	N/A
Drying	Beans are dried to humidity levels of 10 to 12% for 2 to 3 days, preferably on a large, flat concrete surface or screen raised above ground.	Cherries are laid out on the ground to dry in the sun; specific humidity levels are not important.

A second positive outcome of PIDECAFE's venture into exportation was that it cemented the importance of quality control. Managers learned that paying according to weight created false incentives for farmers to turn in coffee that hadn't been dried to the desired humidity levels. To combat this problem, they devised a weighing and pricing system that rewarded producers who met the humidity parameters.[55] Finally, the founders decided that a separate entity was needed to handle coffee marketing and exportation. In March, 1995, they formed CEPICAFE, *Central Piurana de Cafetaleros* (Piuran Federation of Coffee Producers) to gather, market, and export members' coffee.[56]

For the next few years, PIDECAFE continued its farm activities while CEPICAFE searched for buyers. After a few years with no exports, leaders met in 1997 with a representative from a European Fair Trade organization, Max Havelaar, to find out about obtaining certification to sell to the emerging Fair Trade market. The certifier expressed concerns that the young group lacked

[55] I discuss this further in the next section.

[56] CEPICAFE has since diversified into the production and marketing of "panela" (organic brown sugar), a project that benefits better-off members in several districts who also grow sugarcane. Four associations have invested in panela processing modules with buyin from municipal governments, who have committed to paying local technicians to provide extension services.

administrative and managerial capacity, but according to one of the founders, *"We begged the guy so much, he finally said he'd make it our Christmas present!"*[57]

These anecdotes reveal how in the early days of Fair Trade, both producer groups and alternative trade organizations were, in a way, making it up as they went along. Fair Trade's inexperience and flexibility translated into some lucky breaks for CEPICAFE. CEPICAFE's exhibited organizational learning and adaptation by forming the right kind of farmer associations, disseminating market information in innovative ways, developing creative strategies to encourage new farming practices, and devising a payment system to reward quality. (See Figure 7).

Figure 7: Summary of Key Milestones

Year	Action	Lessons Learned/ Results
1991	Founders conduct diagnostic study of coffee cultivation in Piura. Find lowest yields in country, strong anti-cooperative sentiment.	Formed **associations** instead of cooperatives to combat resistance to cooperative structure.
1993	PIDECAFE NGO formed by Peruvian students. Lacked operating capital to purchase coffee from members.	Used German volunteer's credit card. **Market information** disseminated via radio helped regulate prices with local intermediaries.
1994	First export of ½ container to alternative trade buyer through contacts with volunteer.	Buyer dissatisfaction with quality caused switch to **new processing method**.
1995	CEPICAFE formed to market and export coffee. Growers entered organic certification program.	No exports; coincides with higher world market prices for dry-processed coffee, which frustrated attempts to switch to wet method. Held **contests to encourage organic production.**
1997	Second sale to Fair Trade buyers, including Equal Exchange. Acquired FLO Fair Trade certification.	Payment by weight created incentives for high humidity and poor quality. Devised a system to **upgrade quality** by paying according to export yield percentages.

Source: CEPICAFE, 2001; Personal interviews with staff

[57] Personal conversation with César Paz, July 2003.

Exports and Markets

In 2003, CEPICAFE exported 15,430 quintals of coffee valued at $1.6 million, which represents about one fifth of the department's total production).[58] Members produce only two types of coffee: organic and non-organic. However, CEPICAFE sells at prices ranging from a low of $52 to a high of $141 per quintal according to whether the coffee was traded at commodities market terms or through alternative channels, including Fair Trade, organic, "sustainable," and "specialty" (See Figure 8). CEPICAFE was able to sell over half of its volume at Fair Trade prices of at least $126 per quintal. Since 90 percent of Fair Trade sales were *also* certified organic, this coffee earned $141 per quintal, which includes an additional $15 organic premium. Just over one quarter of production was sold to conventional buyers at market prices averaging $54 per quintal. A tiny share was sold strictly as organic - not at Fair Trade terms – at an average price of $69 per quintal, or $15 more than non-organic. Finally, five percent of production was sold as "specialty" (high-quality) coffee, garnering a price of $64, or $10 above market rates.

Figure 8: CEPICAFE 2003 Exports by Volume and Price

Market Type	Avg. price/qq US$	Exports (qq)	% Exports (Vol.)	Value in US$
Fair Trade organic	$139	7441	57%	$1,037,804
Fair Trade non-organic	126	1201	9%	150,973
Organic *	69	300	2%	20,838
Specialty (high quality)	64	640	5%	41,243
Conventional (NY "C" market)	54	3610	27%	193,290
	$109 Avg.	13,191 Total	100% Total	$1,444,148

Source: CEPICAFE, 2003.
** coffee sold under the "sustainable" Utz Kapeh label was also certified organic; it appears in the organic category.*

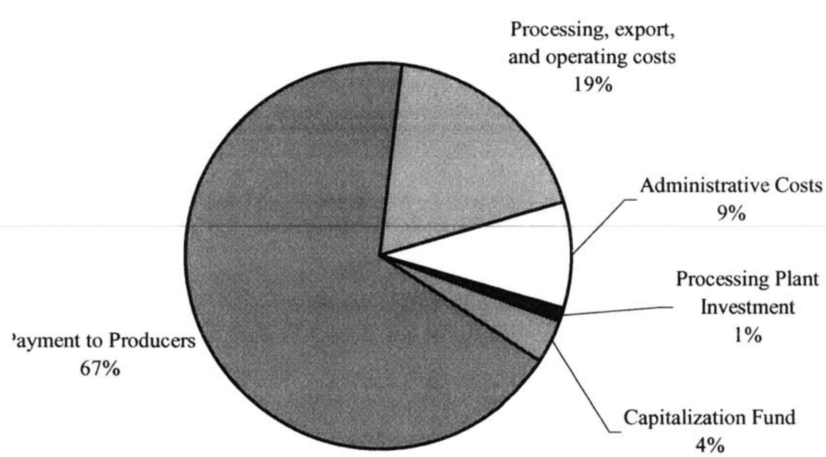
58 CEPICAFE, 2003. NOTE: Detailed contract prices and volumes failed to match with total amounts provided in the report. One section lists total exports at 15,430qq; in the detailed contracts section, exports total 13,191qq.

CEPICAFE sold to ten buyers in six countries in Europe and North America. Four firms were 100 percent Fair Trade buyers, five were importers of both Fair Trade and conventional coffee, and one firm purchased only conventional coffee.[59]

Cost Allocation

CEPICAFE brought in a total of $1.6 million from its 2003 sales, and of that, members received nearly two thirds, or almost $1.1 million. Almost 20 percent of revenues, or $315 thousand, went to processing, transportation, export fees and other operating costs. Close to nine percent, or $151 thousand, was devoted to administrative costs such as salaries and sales trips. Almost four percent, or a total of $61 thousand, was put into a capitalization fund.[60] An additional $20 thousand (one percent) was invested in the construction of a new processing plant (See Figure 9).

Figure 9: CEPICAFE 2003 Cost Allocation



Source: CEPICAFE, 2003.

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[59] CEPICAFE, 2003.
[60] CEPICAFE puts $4 per quintal exported into this fund.

CHAPTER TWO: THE MEANING OF MEMBERSHIP

How do the institutional successes of CEPICAFE translate to farmers in the fields? In this chapter I revisit the questions, *In what ways has CEPICAFE impacted the livelihoods of small scale coffee farmers in Peru? What role have alternative markets like Fair Trade and organic played in enabling CEPICAFE to deliver benefits to members?* I begin by offering a quick comparison between the marketing channel, coffee type, and prices earned for members versus non-members:

Figure 10: CEPICAFE Member/Non-Member Comparison

Piuran Coffee Farmer Type	Marketing Channel	Type of Coffee	Prices Earned
CEPICAFE member	sells via CEPICAFE to international buyers, including Fair Trade, organic, specialty, and conventional markets	Organic and Non-organic Quality important	$71 per qq (organic) * $61 per qq (non-organic) *
Non-member	sells to local traders	Non-organic only Quality not as important	$37 per qq (avg.)

* *before deductions, as explained below.*

Higher Prices

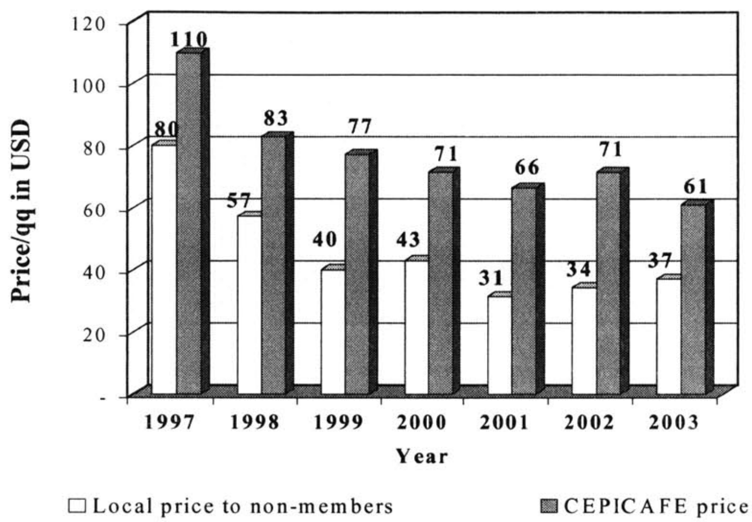
What immediately comes to mind when we imagine how CEPICAFE has impacted the livelihoods of Peruvian coffee farmers is the higher price paid to members. Members grossed $61 per quintal in 2003 for non-organic coffee,[61] in contrast to the local market price paid to non-members of between $23 and $37 per quintal (See Figure 11).[62] Since CEPICAFE began exporting, prices have averaged 68 percent higher than local market prices. For certified organic

[61] According to TransFair, farmers exporting to Fair Trade markets obtain an average net price of around $100 per quintal (Rice, 2004).

[62] Price estimates vary widely based on region, time of year, coffee quality and processing method. In general, discarded beans that remain after processing capture the lower prices; natural processed coffee captures the middle prices, and high quality washed coffee represents the top end of the price spectrum.

coffee, members earned an even greater percentage more than non-members, who have no way to obtain organic certification even though their coffee is generally grown in more or less the same way. CEPICAFE's organic farmers earned $71 per quintal, or 91 percent more than non-members earned for non-organic.

Figure 11: CEPICAFE Price Compared to Local Price*

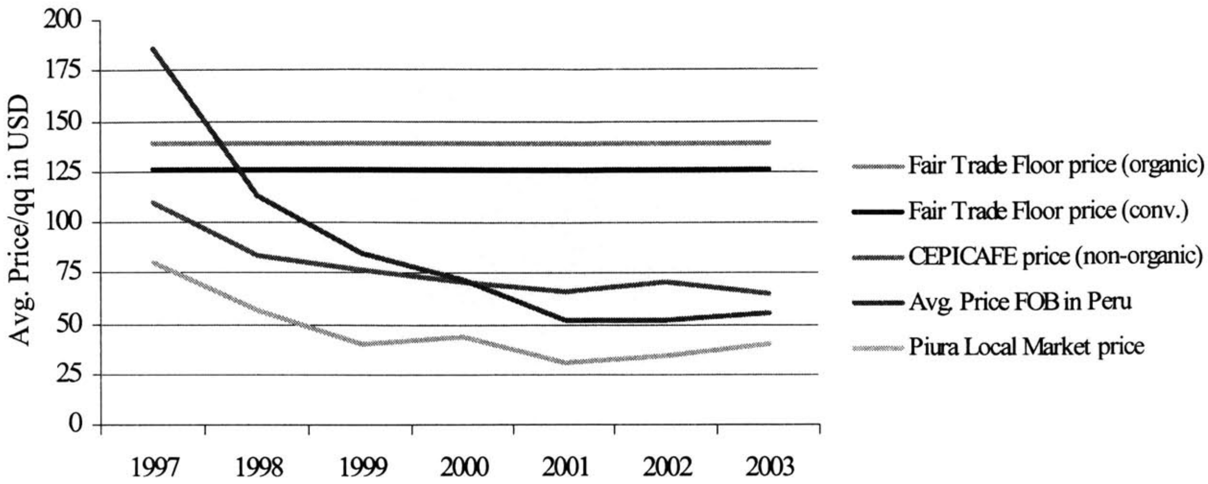


Source: 1997 – 2002 data: Paz, 2004; 2003 data: CEPICAFE, 2003.
** Chart compares prices for non-organic coffee*

Annual individual payouts ranged from $300 to $4600; the mean per member was $548. As a whole, CEPICAFE members received a total of $1.1 million in 2003 in contrast to the $571 thousand they would have earned on the local market, meaning additional gross income to members totaled $581 thousand.[63]

[63] This figure is based on exports of 15,430qq multiplied by the average local price of $37/qq. Volumes may be higher when selling to the local market because of CEPICAFE's measuring system and quality controls. Moreover, this price does not include deductions for interest on the advance payment and association fees, or the increased production costs (mainly in the form of labor) that members may incur. All of these factors result in slightly lower net payments to members, and will be discussed below.

Figure 12: Peru Coffee Price Comparison



Source: JNC 2003, Paz 2004

Because CEPICAFE sells a significant portion of production at conventional commodity market rates, its prices tend to mimic to local prices: they both rise and fall relative to world market prices. However, a few other factors influence the price CEPICAFE pays its members; its internal costs, the percentage of coffee it is able to sell at above-market prices, and the prices at which it sells. These variables cause the difference between local prices and member prices to widen in some years and narrow in others. As the chart above shows, in recent years CEPICAFE prices paid to members have surpassed even the average price received by Peruvian export firms, who are further along the supply chain (See Figure 12). The chart also illuminates the failure of local prices to rise in proportion to prices on the global market, as reflected in the high price paid to exporters in contrast to the much lower local market price in 1997. In other words, high world prices do not equal high prices to growers.

Clearly, collective action and economies of scale alone do not account for the price differential. Let us assume CEPICAFE were to sell all of its members' production at the New York "C" market prices garnered by Peru's large exporting firms, which averaged $54 per quintal in 2003. After deducting operating, export and administrative costs, which came to $21 per quintal, prices to members would amount to just $33 per quintal, which is actually *below* local market prices.[64] In other words, CEPICAFE can pay higher prices to its members not because it eliminates local traders and sells directly to exporters, nor because it bypasses national exporters and sells to the same buyers they sell to. Higher prices are due to the dramatically elevated prices CEPICAFE receives from alternative specialty markets, primarily Fair Trade and organic. Not only do higher prices enable CEPICAFE to pay higher prices to members, they allow both CEPICAFE and primary associations to make investments in infrastructure and technologies to improve quality, as I will discuss below.

Despite the fact that Fair Trade is the force behind higher prices, and that Fair Trade is responsible for buying almost all of CEPICAFE's organic production, I found that most producers, especially those who had never held leadership positions in their associations, didn't have a good grasp on the concept of Fair Trade. The ideology behind the model – that buyers voluntarily pay above-market prices, and that consumers purchase Fair Trade-labeled products out of concern for disadvantaged Southern producers – was not widely understood. This finding supports independent research revealing minimal producer understanding of Fair Trade (Raynolds, 2002; Ronchi, 2002).

Fuzziness on Fair Trade doesn't appear to represent a failure of transparency on the part of CEPICAFE, however. A better explanation for the uncertainty is simply that farmers find it difficult to comprehend exactly why different buyers pay more for the same product and why

[64] This calculation is based on operating, transportation, processing, export and administration costs, which totaled 315 thousand, divided by 15.4 thousand quintals exported in 2003 (CEPICAFE, 2003).

prices are higher in some years than others. I sat in on multiple meetings and trainings during which the presenter described the various markets for Fair Trade, organic, sustainable and specialty coffee. What seems to stick in the end is that CEPICAFE exports directly to a range of international buyers who pay different prices and value different things. The common denominator is that all of these foreign buyers demand high quality. Typical responses to the question, "What do you know about Fair Trade?" were:

> *"They teach us, but I don't remember."*
>
> *"Fair Trade? I think they buy from small farmers who are organized. They pay more for that."*
>
> *"It's a good thing, according to the trainings they give us."*
>
> *"Fair Trade means fair compensation for the sacrifice you make."*

Instead of attributing favorable prices to Fair Trade, producers tend to associate them with membership in an organization that supplies high quality coffee directly to international markets.

Not High Enough?

Even if members don't link higher prices to Fair Trade, it's clear that both organic and non-organic coffee producers who belong to CEPICAFE do earn more per quintal than their unaffiliated counterparts. Yet for a number of reasons, higher prices per quintal are not the first thing farmers mention when talking about the benefits of membership. Rather, farmers they refer to the "*reintegro*," or final payment, that comes after the harvest. When I inquired about the CEPICAFE price, respondents usually gave the figure of 130 Soles ($37/qq), which they get when they sell their coffee, and then said, "plus the *reintegro*." Moreover, they tended to provide conflicting figures as to that final amount.

One explanation for this curious lack of clarity on prices stems from CEPICAFE's payment system, which works like this: When members bring in their coffee, they receive an "advance" of $37 per quintal. This price is intended to be comparable to the local market price. At the end of the growing season (usually in January), CEPICAFE tallies income from all exports for the year, deducts expenses, and divides the net balance among members according to their production. Additional premiums for organic are distributed separately to certified organic farmers. At the time of this "*liquidation*," loan repayments, association fees, and interest on the advance are subtracted from the final amount. Thus, the *reintegro* received by each farmer represents the CEPICAFE price minus various deductions. This causes members to remember the net bonus they were paid instead of the total gross price per quintal.

The membership and interest fees noted above further cut into earnings (See Figure 13). Most primary associations have voted to collect between $1.40 and $6.00 per quintal from members (the average fee is $1.40)[65] to go toward operating capital, investments in infrastructure, and providing credit to members. On top of association fees, CEPICAFE passes on an interest rate of 1.8 percent per month for the advance payment at harvest time, which amounts to an average of $2 to $3 per quintal.[66] These deductions can total as much as ten percent of the farm gate price in the most extreme cases.

[65] Most primary associations collect 5 Nuevos Soles ($1.40) per quintal. The single cooperative organization, CAC Jose Gabriel Condorcanqui, charges 21 Soles per quintal, the highest fee by far. This is undoubtedly because they have achieved monopsony power in the district: nearly 100 percent of producers in Coyona are members.

[66] Personal correspondence with CEPICAFE Credit Manager, Javier Dominguez, July 2004.

Figure 13: CEPICAFE Member Price Deductions

CEPICAFE payment for non-organic coffee per qq	$ 61.00
Interest on advance (average)	- 2.50
Association fees (average)	- 1.40
TOTAL price per qq (average)	$ 57.10

Yet another factor making income from coffee more mediocre than we might expect are lower volumes. One way volumes diminish is the manner in which coffee is weighed and measured. CEPICAFE has determined that it takes 57 kilos of "*pergamino*" beans (which are still enveloped in a dry husk) to yield 46 kilos, or 1 quintal, of exportable coffee after processing. Accordingly, they have implemented a system wherein each "quintal" is measured to contain 57 kilos instead of 46 kilos (or 23 percent more) to account for reduction at the dry mill. Should an association's lot yield a greater proportion of exportable product due to higher quality (fewer defective beans), refunds are distributed at the time of liquidation. The system of measurement, then, means that farmers earn higher per quintal prices, but turn in fewer quintals. A second reason volumes are lower for members is that controlling for quality entails removing defective beans. I was unable to acquire estimates for the percentage of beans that are discarded during processing, but the amount that remains is substantial enough to warrant selling them to local traders. Finally, renovating farms results in short-term lower yields, as new coffee plants don't bear fruit for several years.[67]

In the end, between reduced prices per pound for administrative expenses and lower volumes due to quality control and farm renovation, income from coffee can be disappointing, even for

[67] In addition to the above factors affecting volumes for members, pest outbreaks and drought resulted in 40% lower yields in the 2003 growing season for all farmers in the region (Personal communication with PIDECAFE agronomist, Luis Mendoza, January 2004).

members. In fact, CEPICAFE prices still technically fail to cover costs of production, which are estimated to be $80 per quintal for conventional and $100 for organic in Peru.[68] As opposed to celebrating higher prices, members often express a bit of disenchantment with their overall income from coffee:

> *"The money doesn't go far enough. The only thing we're achieving is improving our farms."*

> *"Coffee is not profitable for us. But at least now we're not losing money."*

So how should we interpret farmers' vague dissatisfaction with coffee revenues coupled with their high level of contentment with membership in CEPICAFE? *If farmers don't see prices as the biggest benefit to membership, and if income from coffee is still low, what are the other advantages to membership?*

Money isn't Everything

Evidently coffee cultivation, even for members of CEPICAFE, is not a great source of wealth and prosperity for the Peruvian smallholder. Nonetheless, as the above comments illustrate, CEPICAFE has managed to soften the impact of the crisis of low coffee prices while enabling members to improve their farms and upgrade quality at the same time. By reconfiguring the unit of analysis to include the community versus the individual, additional indirect and long-term benefits come into view. For example, deductions taken by associations are commonly used to invest in technologies that improve quality (like drying racks and humidity detectors) and to provide credit to members. It's also important to point out that members have decision-making

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[68] Personal communication with Luis Mendoza, June 2004. Failing to cover production costs does not mean farmers are actually *losing* money, as it might suggest. Calculating production costs involves factoring in the value of family labor, which farmers use most frequently. But growers don't generally pay members of their family to work on the farm, therefore they don't consider this a cost of production. Cost of production estimates vary widely, depending on the source.

power to vote on the amount they wish to deduct for capitalization and membership dues, which gives farmers voice. At the CEPICAFE level, the impact of favorable prices is even more apparent. For example, the organization has invested $108 thousand in a new processing plant for the use of all members.[69]

Investments like these are what Fair Trade envisions by the "social premium" that is occasionally mentioned in Fair Trade promotional materials. The social premium is intended to be $5 per quintal of Fair Trade sales that producer groups set aside for a community project voted upon by members. Examples of these projects from Fair Trade publicity materials include investments in schools, health centers, and other income generation activities. Yet CEPICAFE has no such thing as a Fair Trade social premium. Instead, members have approved the decision to devote $4 per quintal of *all* coffee exported (not just Fair Trade) for a capitalization fund. This fund totals more than the Fair Trade social fund would because it is generated from all sales. So while CEPICAFE does not have anything explicitly called the Fair Trade social fund, they have invested a significant amount of money into infrastructure (new offices and a processing plant) that collectively benefit all members. Diverting such sums is only possible because of the price premiums delivered by Fair Trade and other higher-priced markets.

Learning New Skills

More than achieving economic benefits at both the individual and association level in the form of investments and cash outlays, being a part of CEPICAFE requires growers to transform their farming practices. Adopting new farming techniques is possible because of the efforts of about a dozen PIDECAFE staffers, who are each responsible for six to eight associations. These

[69] $108,000 of the total project costs of $576,000 will come from CEPICAFE, $100,000 a donation from the Inter America Foundation, and the balance a credit from international institutions including IABD, the DOEN Foundation, and Rabobank of Holland (CEPICAFE, 2004).

extensionists work with 90 percent of CEPICAFE members on farm renovation, wet processing, quality control, and organic production. PIDECAFE's offices are located in the same building as CEPICAFE, and they have recently expanded operations to cover the newly-incorporated member associations in the department of Cajamarca.

Having an organization close at hand whose mission is specifically to provide members with technical assistance makes CEPICAFE unique and fortunate. And PIDECAFE is no lazy, donor-driven NGO. The agronomists whom I spent several days shadowing appeared to know every producer by name, and seemed genuinely respected and well liked in the community. The rigorous work schedule of these dedicated 'front line workers' also surprised me; they spend 25 days per month on site and five days back at headquarters in Piura, during which time PIDECAFE expects them to attend meetings, complete paperwork, and perform other obligations. Moreover, they live in modest accommodations, drive around on old motorcycles (some don't even have a vehicle), and claim to earn salaries on the low end of the scale for international donor-funded work.

As an organization with a focus on sustainable agriculture, PIDECAFE encourages sustainable practices for all members, not only those in the organic certification program. One of PIDECAFE's main objectives is farm renovation, which entails replacing older plants, integrating fruits and vegetables within the coffee farm, and using natural pesticides and fertilizers. In the long term, farm renovation results in higher yields: averages for the oldest associations have doubled to 11 quintals per hectare since the organization began, when yields averaged three to five quintals per hectare.[70]

[70] CEPICAFE, 2004.

Although these techniques allow farmers to improve yields, diversify crops, and maintain the beneficial conditions of shade-grown coffee, they are more labor intensive, time consuming, and can be more expensive than traditional cultivation methods. In comparison, non-members generally don't apply any inputs to their farms (chemical or natural), don't actively manage shade, and don't plant selected seedlings. Renovating farms can be risky, since yields usually decline temporarily during the three to four year period before new plants bear fruit. Farmers can also be reluctant to uproot older plants that were planted by their ancestors.

Despite these drawbacks, members express a great deal of satisfaction and pride at learning new techniques and improving their farms, and they value the attention received from PIDECAFE extensionists:

> *"We used to leave it up to chance whether or not new seedlings would sprout. Now it's different. We're renovating our fields. We've achieved higher prices and better quality coffee."*
>
> *"We didn't use to know anything. Now we know how to renovate our fields."*
>
> *"The engineers come, they teach us new things. It's interesting. You learn a lot."*

Providing agricultural extension services is only one part of what PIDECAFE does. It also trains farmers on business management, environmental protection, and food security. One recent PIDECAFE project consisted of building improved kitchens that use less firewood. Woven throughout all trainings are concepts such as self-esteem, empowerment, gender equality, and the rights and responsibilities of members. The following comments illustrate members' views on these activities:

"Before there were no trainings. But now they tell us about the roles of men and women. You learn to value yourself. You learn about participation."

"They teach us how to be responsible, that it's important to keep your word."

Low Cost Loans

Because coffee farmers face several months without income during non-harvest periods and they have no options for accessing credit through traditional banking channels, affordable credit is another bonus to membership that should not be underestimated. 72 percent of members took out loans from CEPICAFE in amounts ranging from \$50 to \$800 in 2002. The average amount borrowed was \$300, in contrast to the mean annual income per producer of \$548 in 2003.[71] Nearly all respondents identified being able to borrow money as one of the greatest benefits of belonging to an association. One farmer put it bluntly:

"Credit is the biggest advantage we have. When you're in need, you know there's money available."

Without being able to access loans through an organization, growers sometimes sell coffee 'in the fields,' at prices as low as 60 percent of what they would be at harvest time.[72] High interest rates on the local market are why members overwhelmingly view CEPICAFE's interest rate of

[71] Members obtain credit by soliciting through their primary associations, who consolidate all requests and apply to CEPICAFE each month. CEPICAFE has established five categories of credit for individual members: 1) Sustenance – a short term credit of 1.8 percent per month (equivalent to 22 percent annually) that is given January through March for food and basic family necessities, including school uniforms and supplies. This is the most popular category of credit; 2) Pre-harvest – a short term credit provided April and May for operating capital (to maintain machinery and pay day laborers); 3) Farm Renovation – a long term credit of 1.5 percent per month (18 percent annually) to renovate farms; 4) Machinery and Infrastructure – a long term credit for the purchase of equipment such as depulping machines, irrigation systems, and drying racks. 5) Open Credit - for medical emergencies and miscellaneous needs. Loans can also be obtained directly through the primary associations, which are able to provide credit from their capital fund amassed from membership dues. Members report these credits arrive faster and are sometimes granted interest-free.

[72] CEPICAFE, 2001.

1.8 percent per month, or 22 percent per year, as very favorable. Providing credit has been a positive experience for CEPICAFE as well: they boast a default rate of zero percent.[73]

Through CEPICAFE, farmers can tap into a source of income when they need it most at acceptable interest rates. They can also borrow money to invest in upgrading quality. Nine out of 53 primary associations have applied membership dues and CEPICAFE credit to purchasing wet-processing modules and high quality depulping machines. Several have invested in humidity detectors (valued at $1800) and drying platforms. Hundreds of individual farmers have applied loans to the purchase of $100 depulping machines.

Being able to access credit through producer associations is a benefit derived from collective action, and buyers who source from farmer organizations are supporting these groups and the services they provide to their members. But the financing that enables loans to be distributed at such low cost comes in part from the partial pre-harvest payment that is sometimes provided by Fair Trade buyers at commercial interest rates.[74] Fair Trade buyers don't always provide pre-harvest financing, yet relationships with Fair Trade importers still play an important role in securing credit. CEPICAFE managers report they are able to leverage Fair Trade buying contracts as collateral for financing from other sources. Other CEPICAFE lenders include the Inter American Development Bank, Rabobank, and the Doen Foundation. Low interest rates provided by these institutions have enabled CEPICAFE to establish a capital fund based on the

[73] The perfect repayment rate at the CEPICAFE level may be because primary associations are responsible for the repayment of their members. If a member defaults, the association deals with the defaulter internally and repays CEPICAFE out of capital funds. The other possible explanation for high repayment rates is that short-term loans are automatically deducted from liquidation payments. In other words, members have no choice but to repay.

[74] Fair Trade importers do not always pay in advance of the harvest the required 60 percent of contract value; in fact they argue that TransFair doesn't have the authority to force a company to prepay. One buyer reported having "gotten burnt" when a cooperative failed to supply coffee as promised or return the money.

difference between the interest rate CEPICAFE charges to members (18 to 22 percent annual), and that paid to lenders (10 percent).

Better Beans

Getting two thousand small-scale farmers to produce consistent, uniform, high quality coffee is a tremendous accomplishment that has taken years and is ongoing. Improving quality is a way for farmers to differentiate their product and tap into the lucrative specialty market. But upgrading quality also means learning new practices that require more work, time, and expense. Each stage in the production process presents areas for quality to be compromised or improved (See Figure 14).

Figure 14: Coffee Quality Stages

Processing Stage	Quality Issue
Harvesting	Higher quality coffee requires selective picking versus strip harvesting. In strip harvesting, unripe, ripe, and overripe cherries are all picked at the same time, resulting in inconsistent size and taste. With selective picking, only ripe cherries are collected, meaning the picker must harvest multiple times during the season as new cherries ripen. Selective picking is more labor intensive than strip harvesting.
Depulping	Coffee cherries should be depulped the same day they are harvested. Farmers must also calibrate their depulping machines correctly so they don't nick the beans.
Fermentation	Beans must be fermented just the right amount of time: A few over-fermented beans can spoil an entire lot.
Washing	During a careful washing process defective beans rise to the top and are eliminated. Washing facilities range from small artisanal washbasins used by families to large concrete structures to which the whole association has access.
Drying	Farmers can estimate humidity levels using the traditional method of testing (biting the bean between the teeth), but humidity detection machines are much more accurate. Achieving the desired humidity levels of 10 – 12 percent can be especially difficult during rainy periods. Drying on raised racks or on a concrete surface is preferable to drying on the ground.

At every opportunity - in meetings, trainings, and published materials - members are advised that good quality is essential to retain buyers. Members are proud that they produce high quality coffee. One farmer explained:

"To continue selling to foreign markets we have to improve the quality. They tell us there's too much coffee and that's why prices are low. We may harvest a small amount, but the quality is good."

To ensure compliance to quality standards, CEPICAFE relies on an internal monitoring mechanism. Each association elects a committee composed of someone in charge of weighing, recording, and inspecting coffee. The committee checks coffee for humidity levels and the presence of defects and either accepts or rejects it (See Figure 15). This inspection occurs on "*acopio*" day, or gathering day, when producers bring their coffee to their association for coordinated transport to the processing plant.

Figure 15: CEPICAFE Member Checking Coffee Humidity Level

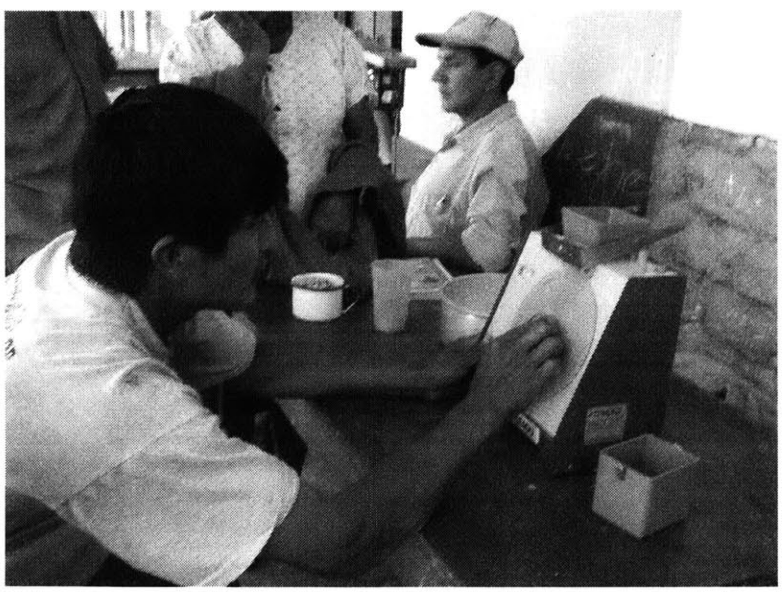

Photo by author, July, 2003

The process of delivering coffee on *acopio* day and inspecting it for quality affords an opportunity for members to learn skills that non-members don't gain by simply selling to intermediaries. This knowledge is not acquired overnight. At one *acopio* day, for example, I observed members seeking the PIDECAFE technician's guidance on whether coffee was acceptable. He repeatedly told them it was their decision to make, as they had all been well-instructed in the desired quality parameters. I got the impression that rejections are more common when a PIDECAFE staff person is present, as members are able to "blame" him for having to perform the unpleasant task. Farmers apparently used to get offended when their product was turned down in front of their peers, but as time passes they are becoming accustomed to the quality monitoring process and are learning that by bringing in good quality coffee they can avoid the embarrassment of rejection.[75]

Refusing coffee on the grounds of poor quality may be a difficult thing for members to do, and they may dislike it when it happens to them, but there are reasons for members to uphold quality standards besides the fact that PIDECAFE tells them to. As explained above, CEPICAFE's payment system rewards quality at the association level by distributing refunds to associations whose lots contain a greater percentage of high quality beans after processing. On an individual level, however, members farmers have good reasons to cheat. For example, insufficiently dried beans weigh more than beans dried to recommended levels and therefore yield a higher price to the individual farmer. Similarly, coffee with a greater quantity of defective beans produces more volume and pays more. Since members of each association combine their coffee into one lot, they collectively pay for additional drying at the plant, incur higher costs of transporting heavier coffee, and have their overall percentage of exportable product dragged down after defects are removed at the dry mill. A more effective quality control system could address these conflicting incentives. I will discuss this in the next chapter.

[75] Personal communication with Luis Mendoza, January, 2004.

Going Organic

Helping members obtain organic certification is another way in which CEPICAFE has influenced Piuran coffee farming. Over 60 percent of members have acquired organic certification or are in the three-year transition period.[76] Farmers usually join the organic program in anticipation of higher prices. Once involved, they grow to appreciate the other benefits including improved soil conditions, increased yields, protection of the environment, and better nutrition.[77] In the words of one organic farmer:

> *"I decided to go organic for the better price, because the consumers want it. But we're also trying to improve the environment and take care of it better."*

Like farm renovation, wet processing, and controlling for quality, organic certification comes with costs and benefits. Of the additional farming practices organic farmers must learn and perform, they find soil conservation measures the most onerous. Forming terraces to prevent soil erosion involves clearing weeds, piling stones and planting trees. The process is labor intensive and can be expensive, as farmers without family members able to help on the farm may have to hire temporary day workers.[78] Furthermore, during the three-year transitional period when farmers are in the process of converting to organic they must carry out these soil conservation measures without obtaining premium prices. Producers also argue that some of the requirements for organic certification are not always appropriate. For instance, the program requires the use of animal-based fertilizers, which is a difficult demand to meet for Piuran farmers, as there aren't

[76] 950 growers are certified organic and 320 are in transition.
[77] Personal communication with Luis Mendoza, July 2004.
[78] Day laborers work for six Soles per day if meals are provided and ten Soles per day if the worker brings his own meals ($1.75 to $2.90).

many cows in the area.[79] The most commonly heard complaint about organic was that prices, although higher, seemed inadequate in contrast to such a heavy workload:

> *"They give you a little more money for it, although it is more work."*
>
> *"The difference* [between conventional and organic] *is ten dollars per quintal, which is not a lot considering the amount of work and responsibility."*
>
> "[The price] *is the same as conventional, practically."*
>
> *"They demand a lot from us. With conventional coffee there are fewer commitments."*

When farmers refer to increased commitments, they are talking about more than farm management practices. The internal monitoring system for organic certification also requires farmers to document their farming practices. To meet this requirement, PIDECAFE has developed a two-page form that all organic producers must complete. This Annual Production Plan contains information on how growers intend to manage their farms during the year, including the area they will renovate and the length of barriers they plan to construct for soil conservation. But producers tend to find completing and adhering to the Annual Production Plan difficult. The extensive paperwork also demands a great deal of technical assistance from PIDECAFE.

Despite prices that don't always seem high enough to merit the increased administrative and farm work, farmers report many benefits stemming from organic production. Shade management provides fruit, firewood and timber, which reduces economic risk by offering an alternative source of income. On-farm diversification through organic farming also offers health and nutritional benefits. Farmers note increased dietary diversity due to planting family gardens of

[79] PIDECAFE, 2001.

yucca, plantains, beans, and other fruits and vegetables required as part of organic certification. They also value the protection of the environment, and believe their farms are in better condition in terms of soil health, erosion, and fertilization, than those of non-organic farmers. When I participated in an organic certification inspection day, members proudly showed me their compost systems, family gardens, terraces, and plant nurseries (See Figure 16). Moreover, learning how to monitor their own and others' progress through the organic internal monitoring system strengthens the capacity of producer organizations.

Figure 16: CEPICAFE member displays organic compost system

Photo by author, July, 2003

What About the Non-Members?

If members achieve higher prices, low cost credit, improved quality, trainings in farm renovation, help with organic certification, increased stability, reduced risk, better nutrition, empowerment, and a host of other good things, *why have some farmers joined and not others?*

CEPICAFE and PIDECAFE staff don't consider non-membership -- currently two thirds of coffee farmers in Piura -- to be cause for concern. In fact, they are more troubled by the problems that may accompany rapid growth, like the inability to provide technical assistance to new associations and the challenge of maintaining quality control. Still, managers offered some possible reasons farmers might choose not to join: they are resistant to change, they don't like working in groups, they don't want to be told what to do, they don't get along with someone in the organization, and the most popular explanation, they "don't want to work." Members generally agreed that increased commitment was the biggest tradeoff to membership, as the following remark illustrates:

> *"With the intermediary there's no bonus. But those who sell to intermediaries don't have the responsibility and work that members do, either."*

As I have demonstrated, membership in CEPICAFE does require increased time, labor, and the willingness to change farming practices that have remained the same for a century.[80] Non-members don't have to manage their farms or worry about quality - let alone go to meetings and fill out paperwork. But in addition to the extra responsibility and work, the economic and logistical factors explored below may dissuade farmers from joining.

Member as Middleman

The practice of members' buying non-member coffee for resale through the association at higher prices could make non-membership more attractive. No farmer will openly admit to "buying," therefore I was unable to obtain estimates of the prices members pay for non-member coffee, but CEPICAFE and PIDECAFE acknowledge that it happens. PIDECAFE regards "buying" to be a problem and attempts to combat it in a few ways: first, by estimating realistic yields based on

[80] Older farmers especially can be resistant to learning new farm management and processing methods.

amount of cultivated land and by comparing production levels to previous years; second, through an educational poster campaign with slogans such as "*Don't Buy!, Don't Cheat!* and, *"NO to Bad Coffee!;"*[81] and third, by incorporating the importance of not buying into trainings. In the end, though, PIDECAFE's mechanisms to stop farmers from engaging in this practice seem fairly ineffective. Staff members strongly suspect that certain members are buying, but appear unable or unwilling to do much about it. CEPICAFE, on the other hand, worries more about fulfilling contracts with buyers, and seems concerned mainly to the extent that non-member coffee could jeopardize quality.

Although gently discouraged by management of the organizations, the practice of buying could be considered a positive spillover effect of higher CEPICAFE prices. Buying coffee could make benefits available more broadly to non-members, who would receive slightly better prices without having to fulfill membership requirements. The downside is that non-members may obtain higher prices, but they don't reap the other important rewards of membership: upgrading quality, improving farms, producing organically, or accessing low-cost credit.

More important perhaps than distributing price benefits to a wider group, members acting as intermediaries may serve to elevate overall prices in the region. Managers confirmed that local market prices are higher in areas where CEPICAFE operates, but disagreed on the reasons why. One view is that intermediaries intentionally pay higher prices in areas where producer groups are active in an attempt to "break the cooperative." Another opinion is that CEPICAFE acts as a price-setter, driving up the prices local traders have to pay in order to compete.[82]

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[81] In Spanish: *No a la Compra!, No al Engaño!, and No al Café Malo!*
[82] Personal communication with CENFROCAFE manager, Teodomiro Meledres Ojeda, March, 2004.

That members of CEPICAFE effectively become intermediaries is ironic considering Fair Trade publicity's rhetoric about of cutting out the exploitative middleman. I found that, in Peru at least, farmers referred to the local coffee buyer as a "*comerciante*" or businessman, and viewed him as a necessary player in the coffee business. These traders, who are usually moderately better-off members of the same community, continue to fulfill a useful function, even for members, by purchasing the discarded beans that remain after processing for sale on the domestic market.[83] However, members did express negative opinions of these traders:

> *"I joined the association so they'd give us a break, pay us a little more. The traders buy cheap. You have to practically beg them to buy from you. They cheat people."*
>
> *"Traders take advantage of the needs of the producer."*
>
> *"The traders pay whatever they feel like."*

In addition to delivering higher prices to members, then, trading through CEPICAFE offers coffee farmers a degree of stability.

Barriers to Entry

Another reason farmers may be deterred from affiliating with an association could be the one-time entry fees ranging from \$15 to \$60 that are charged to individual producers. Associations impose entry fees for several reasons: 1) to expand the group's capital fund; 2) to lessen the chance of defection by accepting only serious, committed members; 3) to require new members to contribute in exchange for use of the group's acquired equipment and capital; 4) to weed out those who plan on buying from non-members and selling through the cooperative. I also sensed

[83] Local traders usually receive operating capital from "*acopiadores*," or gatherers, who buy and store coffee in the bigger cities. *Acopiadores* are affiliated with the large export firms that gather, mill and export green coffee from all across the country.

that the more senior members, who had often taken risks to start the organization when everyone else was skeptical, wanted newer members to make some sort of sacrifice.

Imposing high fees to join could be an effective exclusionary tactic for an association wanting to retain benefits to within a small group, which is typical of some cooperative organizations. In this case, though, it didn't seem like charging an entry fee was a deliberate attempt to keep others out, but more of an effort to establish and maintain loyalty to the association. Members assured me the fee was negotiable and payable over an extended period of time. Furthermore, staying small offers no clear benefits to an individual association. It's true that on a larger scale, distribution of Fair Trade premiums (which are limited due to CEPICAFE's inability to sell all production on the Fair Trade market) among fewer members would mean better prices for everyone. However, associations would have to act collectively to cap their membership rosters in order to have any impact on CEPICAFE as a whole. I did not find evidence of any such coordinated approach.

To avoid paying entry fees, farmers have the option of forming new associations. Here, too, CEPICAFE charges a one-time membership fee of $250 per association. This fee, though, when divided among an average size of 30 members, amounts to the more manageable sum of $8.30 per person. The fee for associations to join CEPICAFE is apparently not intended to limit growth either. On the contrary, CEPICAFE management in particular sees growth as beneficial and is concerned that low yields due to pest outbreaks and low rainfall could prevent them from meeting contractual obligations with buyers. They also view larger membership roles as a way to achieve economies of scale, which is especially important to justify the hefty investment in a new processing plant. The incorporation of CENFROCAFE, a secondary-level association with

350 members, along with the fact that all groups that have solicited membership in CEPICAFE have been accepted, is evidence that the organization is in expansion mode.

This highlights a potential conflict of interest between CEPICAFE and its constituents. CEPICAFE could implement a policy to not accept new members until it was able to sell 100 percent of production at Fair Trade prices. That way, favorable Fair Trade prices would not be diluted by low conventional prices and members would receive better rates. But CEPICAFE is looking toward the future and wants to make sure it has a buffer zone to be able to supply all buyers. In the long run, this strategy is in the best interest of members.

A simpler reason Piuran farmers may not join CEPICAFE, and one that may be the easiest to overlook, is that in some regions there are no primary associations for farmers to join. In Piura, associations only exist in order to affiliate with CEPICAFE; otherwise the economic advantages to forming local producer groups are basically nil. Starting an association from scratch entails a great deal of initiative and leadership. Someone has to round up interest in the community, raise money and file for legal status, and make the trip to Piura to apply for membership. New associations must undergo a one-year "observation period" (during which they are expected to attend meetings as if they were members) and obtain approval by CEPICAFE's General Assembly. Although starting associations and affiliating with CEPICAFE is not the easiest undertaking, new groups are forming and incorporating into CEPICAFE each year.

CHAPTER THREE: CHALLENGES

In the previous chapter I attempted to show how CEPICAFE has impacted the livelihoods of coffee producers in Peru by paying higher prices and delivering other benefits in terms of quality upgrading, organic certification, trainings in farm management, capacity building, increased stability, and affordable credit. I also discussed the role of Fair Trade markets in enabling CEPICAFE to provide benefits to members by paying higher prices, facilitating access to credit, assisting with quality control, and helping with market access. In this chapter I turn to: *What challenges does CEPICAFE face, and what are some strategies to confront these challenges?* In this chapter I will examine a few of the hurdles CEPICAFE will have to overcome: Maintaining quality control, adapting to changing market conditions (including securing member loyalty and dealing with the emergence of other sustainable labels), and strengthening member participation

Keeping Up With Quality

A decade of efforts to train farmers on improving coffee quality has paid off well for CEPICAFE. In addition to selling to Fair Trade and organic markets, they have succeeded in meeting the standards of specialty coffee buyers, who pay above-market prices for a high quality product. But although individual farmers are aware of the technical steps necessary to produce good coffee, senior managers still seem to be playing a bit of a guessing game as to exactly what buyers are looking for. Physical attributes like size of bean, number of defects per sample and humidity levels are one thing, but achieving the desired "taste profile" is another.[84] Managers tend to blame recent coffee rejections on the inexperience of one buyer's newly-hired taster, and argue that they spend so much effort to offer superior coffee only for roasters to "burn" it using

[84] In contrast to commodity grade coffee, the specialty buyer first analyzes a sample of each lot of coffee to assess flavor profile, in addition to considering physical characteristics like size of bean and number of defects. A professional coffee taster, or "cupper," brews and tastes the coffee to determine "cup quality" and decide whether or not to buy.

dark roasting techniques. One buyer commented on the difficulty of communicating with producer groups about the intricacies of coffee tasting:

> *"Some of it's just vocabulary, because they don't know what we're talking about when we say something has a 'dry, bitter aftertaste.' You know, what does 'dry and bitter' mean to them?"*[85]

To enable their suppliers to learn about their standards, some Fair Trade buyers have plans to bring "cuppers" to the US for training. CEPICAFE plans to take advantage of this opportunity. As it stands, CEPICAFE is incapable (and perhaps unwilling) to make effective use of the valuable feedback provided to them. CEPICAFE's buyers hope the half-million dollar processing plant (scheduled to open in 2004) with its on-site cupping lab, will help reconcile these disconnects between buyer and seller. The facility is also expected to alleviate some of the quality problems that happen during the drying and sorting stages at the mill.[86] In the meantime, CEPICAFE's more dedicated Fair Trade buyers continue to work closely with them on quality, due in large part to their commitment to fostering long-term relationships with their suppliers. One Fair Trade buyer described this process:

> "[We look at] *how responsive are they to our quality issues. It doesn't mean they need to change the quality of their coffee overnight, but are they taking measures, are they taking it seriously? Because for every sample we send back a report that's very detailed; how many defects, exactly what we thought of it, the acidity and the body and this and that. So we might accept it, but we might say, we're accepting this but* "ojo, [look out] *next time." And next time do they send us the same thing with the same defects? I mean, three, four, five times in a row and the exact same thing is happening, it's not improving, it's like, "do this again and you're out of here."*[87]

[85] Personal interview with CEPICAFE buyer, March 2004.

[86] During peak harvest times the current processing facility does not have sufficient space to dry the beans when necessary, resulting in higher humidity levels for beans that haven't been adequately dried at the farm level.

[87] This buyer reported that occasions when the firm had cut off relations with a cooperative were extremely rare, and that severing relations was due to the producer group's failure to renew certification on the FLO or organic registry.

Unfortunately, the strategy of being patient with CEPICAFE's quality upgrading process can backfire. When samples from identical lots are at first rejected and then later accepted by the same buyer, or are rejected by one buyer and accepted by another, it's often further evidence to managers that decisions about quality can be arbitrary. The positive aspect of having buyers with different quality standards is that it enables CEPICAFE to unload coffee that Fair Trade buyers have rejected on the conventional market, where quality is less important. This allows CEPICAFE to learn gradually, without the consequence of losing buyers or getting stuck with coffee they cannot sell.[88]

Training a cupper and constructing a new processing plant might speak to some of CEPICAFE's quality issues, but CEPICAFE may discover it needs to strengthen its quality control mechanisms at the primary association level as well. CEPICAFE presently relies on rewarding good quality by paying a refund to associations that turn in coffee with a higher percentage of export-grade product than anticipated. The organization may want to experiment with a more sophisticated incentive structure that not only rewards higher quality, but imposes economic sanctions for lower quality. Lessons can be learned from other producer groups that have implemented effective quality control mechanisms and pricing arrangements.[89] Coming up with a systematic approach to tracing coffee back to the association of origin and knowing how to respond and correct problems when buyers provide feedback can also prevent slippage on quality. Technical assistance to members in the harvesting and processing stages will continue to be critical, especially as CEPICAFE incorporates more associations. To mitigate the concerns of larger roasters who often claim their resistance to committing to Fair Trade stems from fear that

[88] In another case of a buyer helping CEPICAFE learn about market conditions, one US specialty importer voluntarily paid a higher price after managers suggested a price for organic that the firm considered to be low. (Personal interview with Santiago Paz, August 2003)

[89] For example, see Aranda, 2002 for a description of CEPCO's pay structure.

producer groups will be unable to provide consistent quality over time, CEPICAFE will have to continue to make progress in the area of quality control from the individual farmer level, to processing at the dry mill, to evaluating taste using a cupping lab.

Is Organic Worth it?

CEPICAFE faces somewhat of a paradox with organic production. On one hand, prices for Peruvian organic coffee are declining. They have dropped from $15/qq above market prices in 2000 to only $8/qq above market rates in 2003, and observers expect prices to decline even further in the coming years due to oversupply. In addition to falling prices, costs of certification are mounting. Together, these forces diminish the premiums farmers receive for organic and water down the incentive for them to endure the extra work organic production requires.[90] On the other hand, CEPICAFE's highest-paying (Fair Trade) buyers increasingly purchase *only* organic, meaning CEPICAFE will need to continue to be able to supply a steady stream of organic coffee to retain these lucrative contracts.

In the current climate of low market prices for organic, the additional $15/qq premium Fair Trade pays for organic in addition to already elevated prices is even more significant as a way to attract producers to the organic program. Even so, the Fair Trade price premium may not be enough to make up for high certification costs and low (non-Fair Trade) organic prices. To illustrate: CEPICAFE paid $22,389 in organic certification costs in 2003, while additional earnings from organic coffee totaled $111,310.[91] In other words, a full 20 percent of the income earned from organic went to certification costs alone.

[90] The National Coffee Board of Peru (JNC) estimates that production of Peruvian organic coffee will increase by 10 percent in 2005 (JNC, 2004).
[91] CEPICAFE liquidation, 2003.

Organic farmers would have earned even less if a portion of organic production costs were not subsidized by *all* CEPICAFE members. For example, some certifiers require organic coffee to be transported in imported jute sacks valued at $1 each, instead of the cheaper, locally-made, reusable plastic bags that are used for conventional coffee. The cost of the organic sacks amounted to a stunning $20,000 in 2003. This item appears in the general expenses section of the *liquidation* and is incurred by all members, thus making the final payment artificially higher for organic farmers (and lower for non-organic farmers) than it would be otherwise. CEPICAFE managers undoubtedly employ this accounting system because distributing these costs among organic members alone would carve too deeply into what is already considered a mediocre premium for organic farmers.[92]

CEPICAFE is exasperated by these organic certification costs and requirements, which they view as frivolous and unfair. Complicating matters, they are convinced that large exporters are bribing the certifiers to approve coffee that hasn't met the rigorous organic certification requirements, thus flooding the Peruvian market and causing prices to drop. [93] Finding a way to curb organic certification costs by using nationally-based certifiers, combining monitoring and inspection of various agencies, or revising the requirements that impact production costs, would be a positive development for CEPICAFE and other producer groups.

Fair Trade and the Future

Everybody in the Fair Trade world, from producer groups to buyers of Fair Trade coffee, is anxious about what will happen when prices on the conventional market rise, as they are beginning to do. Under conditions of dirt cheap market prices, the Fair Trade model has

[92] This is an example of a practice that members seem not to have questioned or even noticed, although it is clearly indicated in the liquidation reports.
[93] Personal communication with Santiago Paz, January 2004.

demonstrated its strength by providing a safety net in the form of a guaranteed minimum. Should market prices exceed the Fair Trade floor price of $126 per quintal, the Fair Trade price will remain $5 higher. Nevertheless, Fair Traders fear producers might abandon their associations and sell to on the local market during the next temporary price spike, rendering producer groups unable to fulfill contracts with buyers.[94] Considering the effort that has been put into building consumer awareness and creating demand for Fair Trade-labeled products, a shortage of coffee from certified producer groups would be catastrophic for the entire movement.

The danger that farmer organizations might falter when market prices rise is less important to buyers that only offer a few Fair Trade blends as one small part of their product line. But organizations that define themselves by their commitment to offer only 100 percent Fair Trade coffee clearly have a great deal to lose by supply shortages. These "hundred percenters," as they are called in the industry, have tried hard to mitigate the risk of losing their source of coffee by building relationships at all levels of the supply chain - with CEPICAFE managers, primary associations and producers. I tagged along when a delegation from Equal Exchange, CEPICAFE's largest hundred percent Fair Trade buyer, made a weeklong visit to the town of Coyona. Farmers seemed genuinely delighted that people had come to their small village from so far away to learn about coffee. They enjoyed seeing samples of how their product was packaged and were always shocked to learn the price of a cup of coffee in the US. As a strategy to establish member loyalty to CEPICAFE and its international buyers, these visits appear to be effective. Meeting real people who buy and consume their coffee seems to instill the idea of a

[94] This occurred during a period of high prices in 1995 when members of another Peruvian cooperative defected and the organization couldn't meet its contractual obligations. This situation enabled CEPICAFE to enter the market, as Fair Trade buyers were looking for producer groups to provide Peruvian coffee for their blends.

partnership between buyer and seller. The president of one association recognized the importance of these foreign buyers.[95]

> *"Sometimes when visitors come they* [CEPICAFE] *don't let us know in advance, or they arrive late after everybody's left the meeting and gone home. This worries us because we don't want to lose the support of these important visitors."*

Still, the threat of defection is real, and one that the entire Fair Trade movement, including buyers, certifying organizations, and producer groups will have to actively address. For one, CEPICAFE could increase member faithfulness in times of higher world prices by creating other incentives to remain in the organization. For example, the "*fondo mortuario*," a sort of life insurance policy that CEPICAFE has recently created to pay surviving family members a sum of money in the event of a member's death, helps establish loyalty to the association. CEPICAFE could also take advantage of periods when the differential between Fair Trade and world prices is high, as it is now, to establish a fund to boost prices to members when local market prices rise. In recent years CEPICAFE has enjoyed a great deal of manoeuvring room between low market prices and high Fair Trade prices: it could afford to spend money fairly freely and still pay members more than local traders. As a result, administrative expenses may have grown bloated; CEPICAFE will have to be more fiscally austere during periods of high market prices.

CEPICAFE managers worry that the $5 premium may not be enough to enable them to compete with local traders in times of high prices. Some Fair Trade buyers, on the other hand believe the Fair Trade price is designed to be a *minimum* floor price. They argue that they should not have to pay above market rates when market prices rise above the Fair Trade minimum. FLO, TransFair, producer groups and Fair Trade importers will have to look at effective ways around this issue.

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[95] Members from the town of Coyona were advised to prohibit the drinking of alcohol during an upcoming client visit in order to give the best impression to the guests.

The Sustainability Bandwagon

CEPICAFE and Fair Traders will have to find a way to contend with new market forces, as industry-led and other sustainable certification systems emerge and gain in popularity. These labels, including Utz Kapeh, Rainforest Alliance, and Bird-Friendly (Smithsonian Migratory Bird Center) tend to focus mainly on environmental standards and worker health and safety issues. However, unlike the Fair Trade certification, these labels say nothing about a guaranteed price to growers. Furthermore, they work with estates and plantations, not just producer organizations. Critics of these labels, including both independent civil society groups and proponents of the Fair Trade model, accuse them of allowing firms to "greenwash" themselves with a veneer of corporate social responsibility while engaging in minimal changes in practices (Conroy, 2001). CEPICAFE managers echo these complaints, arguing that certification systems put financial and administrative burdens on their organizations, but serve only to "*clear the conscience of the big guys.*"[96] They voice uncertainty as to whether costly investments in certifications will yield financial results:

> "[Representatives from Utz Kapeh] *don't even assure you you're going to sell. They haven't told us who the buyers are, only that the market is growing.*"[97]

CEPICAFE did report sales last year under the Utz Kapeh label at $7/qq above market prices, or roughly 13 percent higher, after having paid $3,000 to become certified.[98] But attributing these modestly higher prices to Utz Kapeh is questionable, since the coffee they purchased was also organic. CEPICAFE is conflicted about whether or not to pursue more certifications and they even consulted FLO and some of their Fair Trade buyers for advice. CEPICAFE values their Fair

[96] I heard this expression in Spanish several times at the SCAA conference: *"lavar la cara de los grandes."*
[97] Personal communication with CEPICAFE Assistant Manager, Jose Rojas, April 2004.
[98] Personal communication with Jose Rojas, April 2004.

Trade contracts and hopes competition in consuming countries among these sustainable labels won't eventually cause their Fair Trade sales to fall. Yet, they feel the need to go after any and all opportunities to sell:

> *"From the point of view of a businessperson we have to do it - in order to have a full range of marketing possibilities."*

Not that producer groups and Fair Traders should automatically oppose other sustainable labels. The fact that sustainability has become prominent in the coffee industry discourse is in itself a good thing, as is increased consumer awareness about economic, social and environmental issues. Consumer demand for sustainable-labeled products may eventually give producer groups more power to leverage their sustainable certifications and obtain higher prices in the way these models intend.

Nonetheless, as with any well-intentioned idea, the risk of cooptation of Fair Trade is ever-present. CEPICAFE reports that some buyers use Fair Trade contracts as a way to 'manipulate' them by offering to purchase, for example, one container at Fair Trade prices if CEPICAFE agrees to sell them 10 at conventional rates.[99] Even within the Fair Trade movement, big differences exist between "hundred percenters," who are committed to the concept of achieving more equitable trading relationships, and roasters who view Fair Trade certification as a profitable marketing tool. To label their product Fair Trade, buyers always have to pay producer groups the stipulated price, but nothing requires them to offer the important non-monetary plusses of Fair Trade that hundred percenters provide, such as technical assistance with quality, help with market access, and relationship-building.[100] Hundred percent Fair Trade organizations

[99] Personal communication with Santiago Paz, January 2004.
[100] Some Fair Trade firms report that they make purchasing decisions specifically with the aim of not creating dependency by not buying too much coffee from any one association.

are also more willing to deal with the occasional hassles and risks of working directly with producer groups. In fact, they often seek out disadvantaged organizations to give them chance. One such hundred percent Fair Trade buyer described the challenges of sourcing from producer groups:

> *"Is it harder to work with a coop than a one-person owner of a plantation that went to Harvard and speaks English? Yes! You know, it's a pain in the butt to go work with people where it's three days to the nearest telephone. Like the Haitians. We're stuck, we have no Haitian coffee, they're having a civil war down there. So if I were Starbucks, would I wanna buy from Haiti? You know, why bother?"*[101]

Navigating Fair Trade terrain has become even trickier for CEPICAFE with the emergence of export agencies that link producer groups with the Fair Trade market. Rainforest Trading, one such firm in Peru, charges farmer organizations a commission of $2 per quintal for its exporting services.[102] The rationale for these exporting organizations is twofold: 1) to help producer groups, many of whom have limited marketing and exporting capacity, access new markets; 2) to assist buyers who want to purchase from small scale farmer organizations but who don't want to waste their time dealing with inconveniences like sub par infrastructure and poor English skills. CEPICAFE fears that buyers will opt to work through such exporting agencies, thus adding an additional intermediary in the Fair Trade supply chain that would not only cut into their revenues and reduce prices to members, it would deprive them of the valuable experience of exporting directly. In deciding whether or not to permit this type of arrangement, FLO and Fair Trade should take into account the benefits to producer groups of handling export functions.

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[101] Personal interview with CEPICAFE buyer, March 2004.
[102] Emmot, 2004.

The Trouble With Participation

CEPICAFE is no different from many other farmer organizations; it needs to work on developing leadership and strengthening the participation of its members. There is still a considerable gap spanning between CEPICAFE's professional management staff, with their expertise and knowledge, and the often uneducated and illiterate members. Farmers tend to trust the administrators and approve their recommendations by vote without having sufficient knowledge to make informed decisions. An example of these shortcomings surfaced when I observed several *liquidation* days, when CEPICAFE reviews the year's accounts and distributes final payments. Management made every attempt at clarity and transparency: they posted a giant, easy-to-read chart of the year's sales, prices, and expenses on the wall, made several copies of the detailed accounting system available for review, and explained how they had arrived at the final figures. Members, meanwhile, quietly sat through the presentation without asking any questions. They were more interested in cutting to the chase and finding out the final amount of money they would be receiving.[103] The sparse discussion was especially surprising considering that the final payment was lower than the year before.[104]

Empowering members to effectively participate in the workings of their organization will be especially critical when the present administration retires. The hired General Manager, one of the original founders of PIDECAFE/CEPICAFE, seems to have a great deal of control of the direction of the organization. He is responsible for forming and maintaining relationships with buyers and making many financial and other weighty decisions. The elected President, on the

[103] After the presentation there still seemed to be a bit of confusion about the final amount CEPICAFE would distribute. Members had to translate the US dollar figure into Nuevos Soles, deduct the advance, and subtract interest charges in order to arrive at the amount of the additional payment.
[104] To address the problem of weak participation, many associations have resorted to charging a relatively sizeable fine (10 Soles = $3.00) for absence from meetings, and a smaller fine (1 Sol = 30 cents) for arriving late. These penalties are imposed so members will *"learn how to be responsible."* I was unable to verify if they were ever imposed.

other hand, seems to be more of a figurehead who makes speeches at ceremonial events but is largely ignorant of the internal goings-on. CEPICAFE's current managers may be honest and devoted to improving the lives of members. When these individuals leave, however, CEPICAFE and its members will be exposed to the corruption and mismanagement that plague so many farmer groups.

Strong organizations with effective democratic decision-making abilities are also vital to achieving the outcomes of Fair Trade. Beyond guaranteeing that CEPICAFE as an institution received a minimum price, the Fair Trade system currently has a weak mechanism to track working conditions and pay all along the supply chain, and depends instead that members will vote on how best to distribute benefits. One example of an inconsistency in the Fair Trade model lies in the way workers are treated at the processing plant. CEPICAFE subcontracts milling services to an independent operator. There, women workers hand sort beans in 12 hour shifts and earn \$2.50 – 4.50 per day (8 to 16 Soles) according to the number of defective beans they collect. At this rate, their pay falls short of the Peruvian minimum wage, they receive no overtime, and they are considered temporary employees.[105]

CEPICAFE could easily claim that the processing plant is a separate entity, and that they are not responsible for how workers are paid and treated there. This, of course, is the same argument that large Northern corporations give in defense of poor conditions at their overseas factories. The issue of how CEPICAFE will pay and treat workers when they open their *own* processing plant should fall under closer scrutiny, especially if the plant workers are processing Fair Trade coffee.

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[105] This calculation is based on working 6 days a week. Workers would earn 192 to 384 Soles per month, and the Peruvian minimum wage is 425 Soles per month.

Fair Trade importers maintain that monitoring producer groups in-country is the responsibility of FLO and TransFair. In theory, a locally-based FLO inspector annually evaluates groups on the Fair Trade register by visiting farms, reviewing meeting minutes, and completing a report addressing democracy, participation and transparency, discrimination, use of Fair Trade premium, environmental protection, and labor conditions.[106] However, CEPICAFE managers reportedly had not seen a FLO inspector for several years prior to 2003. FLO's monitoring system will most likely improve now that producer groups are financing the cost of inspection and FLO's budget has increased. For its part, TransFair has conducted impact assessments on some of its producer groups, but independently obtained information about the internal workings of these cooperatives, the price growers receive, and conditions along the supply chain is definitely lacking and is an area for future research.

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[106] FLO recently spun off its certification unit into a separate for-profit company called FLO-Cert.

CONCLUSION

"The coffee industry is one of feast or famine, but, for the small producers, it is usually famine."[107]

Most of the 25 million farmers responsible for supplying the world with coffee are smallholders living in poverty in remote regions in the developing world. Lacking infrastructure, capital, and market information, many are dependent on selling through a chain of intermediaries that traces back to a handful of transnational firms.[108] Coffee growers are extremely vulnerable to the vagaries of the international commodities market: a frost in Brazil will send prices for green coffee beans soaring one year; a bumper crop in Vietnam will cause them to plummet for the next six. In recent years market prices have fallen to historic lows, exacerbating poverty, malnutrition, and urban migration in countless coffee growing regions around the globe.[109]

Through cooperative organizations, some small-scale coffee producers have been able to gain access to alternative trading channels and higher-priced markets. CEPICAFE, a Peruvian coffee producer group that exports to the Fair Trade and organic markets, has impacted the lives of its members in more ways than delivering higher prices than those paid on the local market. Members have also learned new farming practices, improved coffee quality, obtained organic

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[107] Dicum and Luttinger, 1999.

[108] The decline in prices for green coffee has not corresponded to an equivalent decline in prices to the consumer. Between 1999 and 2003, green coffee prices fell by about 50 percent, while the retail price of roasted coffee dropped only 15 percent. (TransFair, 2004b) Roasters have also taken advantage of the availability of poor quality, inexpensive beans by increasing volumes of robustas in their blends (Lewin, et al, 2004). Five firms buy and roast nearly half of the world's entire production of green coffee beans (Gresser and Tickell, 2002).

[109] Most observers agree that the current crisis of low coffee prices represents more than a nadir in a timeless cycle of weather-related booms and busts, but is a result of dramatic structural shifts in the marketplace (Ponte, 2002a). Vietnam, previously a negligible coffee producing country, has become the world's second largest producer in just over a decade. The world's biggest supplier, Brazil, has boosted output by moving coffee plantations to less frost-prone regions, shifting to higher-yielding varieties, and mechanizing production. Another change is the collapse of an International Coffee Organization (ICO) agreement in 1989 to regulate world coffee prices using a quota system. For more information on the International Coffee Agreement see Bates, 1997; Dicum and Luttinger, 1999; Gilbert, 1996; Ponte, 2002a.

certification, and accessed affordable credit. Nonetheless, CEPICAFE members provide a more nuanced perspective of belonging to a producer group than we are used to hearing about: membership requires more time, work, and responsibility.

As I have shown in this paper, higher prices from Fair Trade and organic markets have enabled CEPICAFE to deliver many benefits to members. Aside from paying higher prices, alternative trade organizations have helped CEPICAFE in other ways. One of the most important benefits of working with Fair Trade buyers is that they have helped CEPICAFE to overcome one of the greatest challenges facing producer groups: gaining access to and competing in international markets. For example, several Fair Trade buyers have financed trips for CEPICAFE directors to visit Europe and the US to educate community groups about Fair Trade, and one firm is planning to train CEPICAFE in coffee tasting techniques. These organizations have also led delegations of buyers, customers and activists to Peru to learn about coffee, CEPICAFE, and its members. TransFair USA, the certifier of Fair Trade products in the US, sponsors a prominent display at the annual Specialty Coffee Association Conference, where CEPICAFE has secured contracts with new buyers. In addition to building relationships between buyers and sellers, Fair Trade organizations have helped CEPICAFE become more competitive in the marketplace by providing technical assistance and patience during the quality upgrading process.

Improving quality is key because, despite the global oversupply of commodity grade coffee that has forced prices down, buyers are "scrambling to find high quality coffee"[110] As a result, high quality coffee can earn above market prices. Unorganized producers, though, lack economic incentives to improve quality by traditional actors in the supply chain. One importer put it this way: *"they've had 50 years of 'I don't care what you do, just give me the coffee and I won't pay*

[110] Telephone interview with US coffee importer, March 2004.

you very much.'"[111] Moreover, low prices and difficulties accessing credit have rendered investing in technologies and practices to improve quality impossible. And in times of low prices, farmers do what makes economic sense: they put the bare minimum effort into their farms, yields stagnate, quality suffers.[112] Importantly, even with price incentives and access to credit to improve quality, doing so is near impossible for small farmers and their associations without extensive technical assistance. CEPICAFE and its primary associations, however, have been able to invest in infrastructure and improve quality, thereby facilitating access to these lucrative markets. This is a viable long-term strategy.

CEPICAFE members have also been able to take advantage of consumer willingness to pay more for coffee that bears an organic seal.[113] Fair Trade prices for organic coffee (which are even higher than prices for non-organic coffee) support organic production and make up for otherwise low prices for organic. Organic production, in turn, offers important non-economic benefits in addition to higher prices. On-farm diversification, for example, reduces risk by improving family nutrition and farm sustainability. Furthermore, rigorous requirements for organic certification and internal monitoring have helped to strengthen the capacity of primary associations.

Being organized offers farmers other, more intangible advantages beyond higher prices and other services provided by CEPICAFE. Membership offers an avenue through which marginalized, small-scale coffee producers can be heard. Two examples stand out: One, CEPICAFE has become an important participant in national, regional, and international discussions around coffee, including the Junta Nacional del Cafe (National Coffee Board) of Peru, Coordinadora Latinoamericana del Café (Latin American Coffee Coordinator), Specialty Coffee Association of

[111] Telephone interview with US coffee importer, March 2004.
[112] Overall, this has lead to deteriorating export crop quality and price discounting in international markets. Peru's coffee was traded in 2003 at a discount of market rate minus $7 per pound. (Emmot, 2004)
[113] Regardless of production processes, coffee that has not been certified as organic is sold as conventional.

America (SCAA), FLO, the organization of Andean coffee growers, organic producer associations, and an association of gourmet coffee producers (APECAFE). CEPICAFE's presence in these fora has enabled it to share information on accessing specialty markets with other producer groups, negotiate for increased state support to agriculture, advocate for improving the image of Peruvian coffee by upgrading quality, and express the collective opinion of coffee producer groups. Two, CEPICAFE members have been able to make demands through public demonstrations. CEPICAFE has held two annual mobilizations in Piura, coinciding with their General Assembly meetings, in which hundreds of members participated. The goal of these mobilizations has been to *"show that the sierra contributes to the economy of the country."*[114] CEPICAFE has also organized protests of a planned copper mine construction, which threatens to displace hundreds of agriculture workers and contaminate land and water sources. These activities give voice to small farmers, who previously had no effective way to make demands.

Going forward, CEPICAFE will have to adapt to new challenges as the specialty coffee landscape becomes increasingly complex. In the North, new labels have emerged to capitalize on the growing consumer demand for sustainable products. These labels may cause consumer "label fatigue" and confusion, and they may compete with Fair Trade and affect CEPICAFE's sales. Another threat to small-scale producer groups like CEPICAFE is that Fair Trade certifiers have considered accepting estates and plantations into the Fair Trade model, which could also undermine CEPICAFE's Fair Trade sales. Another issue is that quality control is even more important than ever to small-scale suppliers, as Fair Trade organizations that began with solidarity and development-oriented missions, like Equal Exchange, find themselves competing with large specialty roasters like Starbucks for the market share for Fair Trade certified

[114] The coast of Piura has been considered the most important agricultural region, with its production of rice, sugarcane, corn, and cotton.

products.[115] Lastly, prices are rising on the conventional market, which diminishes the differential between Fair Trade and market prices, and poses threats to member loyalty and guaranteed supply. All these developments pose challenges for CEPICAFE, its buyers, and the Fair Trade movement.

Back in the fields, Piuran coffee producers are largely unaware of the complexities in the world of international trade. They continue to cultivate their coffee on the misty mountainsides and try to improve the standard of living of their families. Membership in CEPICAFE, primarily through access to Fair Trade and organic markets, has given them higher prices for the coffee they grow. Beyond higher prices, being organized has brought increased stability, less vulnerability, and a way to be heard. As one CEPICAFE member explained, *"we're no longer alone."*

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[115] Quality has been shown to be an important factor in increasing consumer demand for Fair Trade and other cause-related coffees (Levi and Linton, 2003; Lewin, et al, 2003).

APPENDICES

Appendix A: FLO Fair Trade Producer Requirements

Democracy, Participation and Transparency
The organisation must be an instrument for the social and economical development of the members...
The organisation must have a democratic structure and transparent administration, which enables an effective control by the members and its Board over the management, including the decisions about how benefits are shared. Furthermore, there must be no discrimination regarding membership and participation.

Small holder Members
Majority of members must be small family farmers (generally fewer than 5 hectares each), using primarily family labor and not structurally dependent on permanent hired labor.

Environmental Sustainability
Producers will implement a system of Integrated Crop Management (ICM), with the aim of establishing a balance between environment protection and business results... ICM minimizes the use of fertilizers and pesticides, and partially and gradually replaces them with organic fertilizers and biological disease control.
FLO encourages producers to work towards organic certification.

Economic Development - FairTrade Premium
The organisation has the commitment and capacity to administer the Fairtrade Premium in a way which is transparent for beneficiaries and FLO. Decisions on use of the Premium are made democratically by members.

Export Ability
The producers must have access to the logistical, administrative and technical means to bring a quality product to the market.

Source: Excerpted from FLO, 2004.

Appendix B: Specialty Coffee Exports in Peru, 2003 (estimates)

Type of Coffee	Volume in QQ (46 Kg)	% of Total Volume of Peru exports	Avg FOB[116] Price US$ / QQ	Total Value US$
Organic	250,000	7.7%	$70	$17,500,000
Fair Trade (non-organic)	55,000	1.7%	126	6,930,000
Specialty (gourmet/premium)	75,000	2.3%	75	5,625,000
Sustainable*	50,000	1.5%	65	3,250,000
TOTAL	430,000	13.2%	(Avg.) 77	33,305,000

** This category includes coffee sold under labels like Utz Kapeh.*
Source: Organic and Fair Trade certifiers, Customs, Cooperative Organizations. Adapted from JNC 2004.[117]

[116] FOB, "free on board," is the price of green coffee loaded onto a ship at the port of export.
[117] It is unclear where dual-certified Fair Trade and organic coffees, priced at $139/qq, appear in this chart.

Appendix C: Coffee Exports in Peru by Organization
(January to July 2003)

	Exporter (in order of value)	Value FOB US$	Volume in qq	Avg. price US$/QQ
1	PERALES HUANCARUNA	17,168,283	333,875	51.42
2	LOUIS DREYFUS PERU	6,607,093	145,710	45.34
3	COMERCIO & CIA	6,177,213	119,503	51.69
4	CIA INT'L DEL CAFE	5,855,533	108,508	53.96
5	PROCESADORA DEL SUR	4,479,329	82,783	54.11
6	**CENTRAL COCLA ***	4,190,581	56,448	**74.24**
7	VALDIVIA CANAL HUGO	3,940,009	95,041	41.46
8	MACHU PICCHU COFFEE TRADING	3,134,247	81,007	38.69
9	ROMERO TRADING	2,784,958	52,594	52.95
10	CAFETALERA AMAZONICA	2,445,212	43,986	55.59
11	AGROINDUSTRIAL ARRIOLA	2,322,973	45,261	51.32
12	ANTONIO RINALDI	1,855,381	34,248	54.18
13	LAUMAYER PERU	1,794,613	31,054	57.79
14	**CAC LA FLORIDA ***	1,278,800	16,260	**78.65**
15	ASOC. R. DE MENDOZA	826,792	6,525	126.71
16	**CECOVASA ***	826,449	12,630	**65.44**
17	PRONATUR	755,009	10,542	71.62
18	COEX PERU	751,286	13,500	55.65
19	IMPEX	616,087	14,550	42.34
20	PERCOF	565,962	12,748	44.40
21	**CEPICAFE ***	516,470	5,327	**96.96**

Source: JNC, 2004
** = Producer Group*

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